



ARGO

16

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

MANAGEMENT AND ADMINISTRATION

DIRECTORS

David Fisher
Michael Kloter
Andreas Rialas
Kyriakos Rialas
Kenneth Watterson

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CHAIRMAN'S STATEMENT

Key highlights for the twelve months ended 31 December 2016

- Revenues US\$6.4 million (2015: US\$5.7 million)
- Operating loss US\$0.6 million (2015: operating profit US\$0.2 million)
- Profit before tax US\$0.6 million (2015: loss before tax US\$2.9 million)
- Net assets US\$20.1 million (2015: US\$22.4 million)

The Group and its objective

Argo's 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 2016.

For the year ended 31 December 2016 the Group generated revenues of US\$6.4 million (2015: US\$5.7 million) with management fees accounting for US\$4.3 million (2015: US\$5.1 million). The Group also generated incentive fees of US\$1.7 million (2015: US\$ Nil) during the year. The incentive fees earned during the year were from The Argo Fund and Argo Distressed Credit Fund.

Total operating costs, ignoring bad debt provisions, are US\$6.4 million (2015: US\$3.5 million). The increase in operating costs is mainly due to bonuses paid to reflect the excellent work undertaken by the team over a number of years leading to the sale of a significant asset and professional costs relating to our share buyback programme. During the year management fee arrears of US\$ 2.8 million were recovered from Argo Real Estate Opportunities Fund Limited ("AREOF") against which a provision had been raised in prior years. The Group has provided against management fees of US\$2.2 million (€2.0 million) (2015: US\$2.2 million (€2.0 million) due from AREOF and US\$1.2 million (2015: US\$1.1 million) of loans made to AREOF and its group entities. In the Directors' view these amounts are fully recoverable however they have concluded that it would be appropriate to carry a provision against these receivables as the timing of the receipts may be outside the control of the Company and AREOF.

Overall, the financial statements show an operating loss for the year of US\$0.6 million (2015: operating profit US\$0.2 million) and a profit before tax of US\$0.6 million (2015: loss before tax US\$2.9 million) reflecting the realised and unrealised profit on current asset investments of US\$1.1 million (2015: loss US\$3.3 million).

At the year end, the Group had net assets of US\$20.1 million (2015: US\$22.4 million) and net current assets of US\$19.6 million (2015: US\$15.7 million) including cash reserves of US\$6.1 million (2015: US\$3.1 million). The Directors are not declaring a final dividend.

Net assets include investments in The Argo Fund, AREOF, Argo Special Situations Fund LP ("ASSF") and Argo Distressed Credit Fund (together referred to as "the Argo funds" at fair values of US\$9.7 million (2015: US\$10.2 million), US\$0.1 million (2015: US\$0.1 million), US\$0.01 million (2015: US\$0.01 million), and US\$2.5 million (2015: US\$Nil) respectively.

CHAIRMAN'S STATEMENT (continued)
Business and operational review (continued)

At the year end the Argo funds (excluding AREOF) owed the Group total management and performance fees of US\$2,441,281 (31 December 2015: US\$819,451). Since the year end the Group received US\$1,849,986 as part settlement of these management and performance fees.

The Argo funds ended the period with Assets under Management ("AUM") at US\$110.6 million, 18% higher than at the beginning of the year. Management believe that the markets in which the Funds operate have now established a recovery following the 2008 economic collapse. The current level of AUM remains below that required to ensure sustainable profits on a recurring management fee basis in the absence of performance fees. This has necessitated an ongoing review of the Group's cost basis. Nevertheless, the Group has ensured that the operational framework remains intact and that it retains the capacity to manage additional fund inflows as and when they arise.

The number of employees of the Group at 31 December 2016 was 27 (2015: 24).

The Group has provided AREOF with a notice of deferral in relation to 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 2016 total US\$Nil (2015: US\$Nil) after a bad debt provision of US\$6,401,507 (€6,069,505) (2015: US\$7,164,702 (€6,569,505)). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows. AREOF settled total fees of €2,776,000 (€2,500,000) during the year. In November 2013, AREOF offered Argo Group Limited additional security for the continued support in the form of debentures and guarantees by underlying intermediate companies. Argo Group Limited retains this additional security. The AREOF management contract has a fixed term expiring on 31 July 2018.

Fund performance
The Argo Funds

Fund	Launch date	2016 Year total	2015 Year total	Since inception	Annualised performance	Sharpe ratio	Down months	AUM
		%	%	%	CAGR %			US\$m
The Argo Fund	Oct-00	52.30	-17.42	203.94	7.95	2.07	58 of 195	63.1
Argo Distressed Credit Fund	Oct-08	32.69	-9.71	98.85	9.37	0.72	47 of 99	35.1
Argo Special Situations Fund LP	Feb-12	-12.03	-76.21	-87.00	-28.22	0.90	51 of 59	12.4
Total								110.6

AREOF's adjusted Net Asset Value was minus US\$25.8 million (minus €24.5 million unaudited) as at 30 September 2016, compared with minus US\$23.4 million (minus €20.9 million audited) a year earlier. The adjusted Net Asset Value per share at 30 September 2016 was minus US\$0.04 (minus €0.04) (30 September 2015: minus US\$0.03 (minus €0.03)). Although AREOF's consolidated statement of financial position indicates the AREOF group is insolvent on a consolidated basis, the structural ring-fencing of the underlying SPVs eliminates the impact on the Group of negative equity at subsidiary level.

For several years, AREOF has traded with a negative equity position and significant cash shortages at the holding company level. In 2017, AREOF hopes to complete a significant restructuring which will go some way towards reversing its negative equity position. Initial measures are already underway. The Board hopes the restructuring will be completed during the first half of 2017. As part of the restructuring, Argo Group Limited would accept a reduction in the management fee from AREOF. The reduction will see the annual fee fall from €2m currently to €1m. Even after this reduction, it is still expected by the Board that AREOF will struggle to meet its management fee obligation to Argo Group Limited.

CHAIRMAN'S STATEMENT (continued)

Fund performance (continued)

2016 proved to be a better year for most emerging economies than expected. The US postponed its interest rate rise and the greenback rally stalled. This prompted many emerging market central banks to cut interest rates, boosting activity. Moreover, investors went back on the hunt for higher yielding assets and capital flowed back into emerging markets, bond issuance reaching a record high in 2016.

This favourable backdrop created an opportunity to reinvest in emerging markets at lower prices. In response to the more positive prevailing attitudes towards credit funds we have relaunched TAF and expect to do the same for ADCF soon, as two distinct mandates with different liquidity profiles that will make them more attractive propositions to new investors.

Early in the year the Argo funds generated a positive return from trades linked to the 2015 disposal of their stake in an Indonesian oil refinery. In June 2016 the Argo funds further benefited from the sale by AREOF of one of its real estate assets in Romania. As well as contributing to the strong performance of TAF and ADCF, this provided much needed liquidity to the funds and allowed AREOF to repay US\$2,776,000 (€2,500,000) of management fee arrears.

TAF is the Group's flagship fund and has a 16 year track record. Going forward, TAF will focus on liquid bond securities, both sovereign and corporate, and will be the focus of the Group's marketing efforts. Following the declines experienced by emerging markets over the previous two years, the Board believes they offer attractive investment opportunities. Furthermore, the economic fundamentals in emerging markets are robust. Emerging Markets Corporates are expected to deliver significantly stronger economic growth than those in developed markets in 2017 while enjoying attractive risk profiles thanks to lower levels of government indebtedness and relatively high foreign exchange reserves. Both TAF and ADCF performed well during 2016 with NAV per share increasing by 52.3% and 32.69% respectively.

The two markets in which AREOF operates were mixed. Conditions in Romania were largely favourable as the local economy continued to expand thereby boosting the local property market. In Ukraine the political crisis abated somewhat with the replacement of almost the entire government and the economy is now on a modest recovery path.

The Group invested in additional human resources by recruiting a dedicated investor relations professional and an experienced research analyst in expectation of increased activity in The Argo Fund trading and risk management. Furthermore, operational systems were upgraded with the help of an IT consultant.

Following the growth in assets under management at Argo Capital Management Limited, the subsidiary has submitted an application to the Financial Conduct Authority for a full scope Alternative Investment Fund Manager (AIFM) licence in January 2017.

In January 2017, The Argo Fund, the Company's flagship fund, won the Eurohedge Award for Best Emerging Manager and Smaller Fund in 2016.

Dividends and share purchase programme

The Directors are not declaring a final dividend, but intend to restart dividend payments as soon as the Group's performance provides a consistent track record of profitability.

During the year the Directors undertook a share purchase programme and authorised the repurchase of 19,330,000 shares at a total cost of US\$2.9 million which provided substantial market liquidity for share trading.

Under the current Share Buyback Programme II, the Company intends to use up to £2 million to acquire Ordinary Shares in the market over a twelve month period commencing on 28 September 2016 and expiring no later than 19 September 2017 (one year from the date of the 2016 AGM which authorised the 2016 Share Buyback Programme II). The minimum price that Argo will pay is 8p per Ordinary Share. The aggregate number of Ordinary Shares which may be acquired on behalf of the Company in connection with the 2016 Share Buyback Programme II will not exceed 23,676,987 Ordinary Shares, which broadly represents the

CHAIRMAN'S STATEMENT (continued)

Dividends and share purchase programme (continued)

number of shares in public hands. The Company has spent US\$0.07 million (£0.06 million) to buy back 375,000 Ordinary Shares on this programme so far.

The Directors firmly believe that a return of excess cash to shareholders through buy-backs will send a positive message to investors.

Outlook

The Board remains optimistic about the Group's prospects particularly in light of the significant increase in the liquidity of Argo funds following the sale of illiquid assets. A significant increase in AUM is still required to ensure sustainable profits on a recurring management fee basis and the Group is well placed with capacity to absorb such an increase in AUM with negligible impact on operational costs.

Boosting AUM will be Argo's top priority over the coming year. The Group's marketing efforts will continue to focus on the re-launch of TAF which has a 16 year track record as well as identifying acquisitions that are earnings enhancing. TAF's prospectus was amended on 1 March 2016 to eliminate trading in level 3 illiquid assets and concentrate trading and investments in emerging market bonds and other liquid assets.

Over the longer term, the Board believes there is significant opportunity for growth in assets and profits and remains committed to ensuring the Group's investment management capabilities and resources are appropriate to meet its key objective of achieving a consistent positive investment performance in the emerging markets sector.



Michael Kloter
Non-Executive Chairman

Date: 02 March 2017

DIRECTORS' REPORT

The Directors present their annual report and the audited accounts of the Group for the year ended 31 December 2016

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 profit or loss and comprehensive income is set out on page 17. 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

Argo is working towards the payment of a dividend which will ultimately depend on the success of the initiatives described in the Chairman's Statement. The Directors are not declaring a final dividend, but intend to restart dividend payments as soon as the Group's performance provides a consistent track record of profitability.

During the year the Directors undertook a share purchase programme and authorised the repurchase of 19,330,000 shares at a total cost of US\$2.9 million and weighted average cost of US\$0.148 per share.

Directors and their interests

The Directors, who served throughout the year and held office at 31 December 2016 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 2016	31 December 2015
	Ordinary shares	Ordinary shares
	No.	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 13.

Going Concern

The Directors have carried out a rigorous assessment of all the factors affecting the business in deciding to adopt the going concern basis for the preparation of the accounts. They have reviewed and examined the Group's financial and other processes including the annual budgeting process and expect the Group to have sufficient cash flows in the foreseeable future. On the basis of this review, the liquid assets held and the funding facilities available to the Group should they be required, the Directors are confident that the Group has adequate financial resources available to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis for preparing the financial statements.

DIRECTORS' REPORT (continued)**Substantial shareholdings**

On 30 January 2017 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 2006420 Acct	24,843,767	51.65%
HSBC Global Custody Nominee (UK) Limited 676112 Acct	5,136,000	10.68%
Jim Nominees Limited Jarvis Acct	3,530,984	7.34%
HSBC Global Custody Nominee (UK) Limited 683224 Acct	1,925,000	4.00%
Vidacos Nominees Limited Clrlux Acct	1,483,840	3.09%

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 be cognisant of 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 Conduct Authority ("FCA") 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 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.

DIRECTORS' REPORT (continued)

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 risks that the Board considers most important to its business are those associated with operations, illiquidity and valuation. 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 the use of an independent compliance review service to oversee the regulated activities of the investment advisors 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

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.

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 the Company's external auditors;
- 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;

DIRECTORS' REPORT (continued)

Audit Committee (continued)

- 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 advisor, 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 manager, Argo London, is reviewed by an external compliance consultant as part of its duty to satisfy its responsibilities under the FCA regulations.

Remuneration Committee

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 FCA remuneration code ("Code");
- To ensure the Group's remuneration policy for all staff is compliant with the Code;
- 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 twice during the year and there was full attendance at the meeting. The Chief Executive Officer and Chief Investment Officer attended all of both 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 FCA 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 believes 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\$Nil (2015: US\$1,987).

DIRECTORS' REPORT (continued)

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 2016 was 29 (2015: 9).

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, Baker Tilly Klitou & Partners Ltd, 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: 02 March 2017

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 as adopted by the EU.

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 as adopted by the EU; 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 Parent Company'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 nearly 30 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 Andrew Fisher has over 30 years of experience in business, finance and law. He is currently (a) Board Member at Innova Capital, a PE firm in Central Europe, (b) Chairman of the Board of Da Vinci PE Fund 1 and Chairman of the Investment Committee of Da Vinci PE Fund 2, both CIS PE funds, (c) Investment Committee Member at Taxim Capital, a Turkish mid-cap PE fund, and (d) Advisory Board member of TCA Fund Management Group, a global SME credit fund manager. He has also taken on several projects on behalf of major shareholders to fix funds and companies going through difficult periods. Mr. Fisher served as a Captain in the US Army, is a member of MENSAs, and holds degrees from Davidson College (BA), Vanderbilt Law School (JD), and Harvard Business School (MBA). He is an American citizen who resided in Europe for more than 15 years and worked in many emerging markets. Currently, he spends about a third of his time on charitable activities and speaks at numerous investing conferences. He strongly supports sustainable and inclusive international economic development as a way to create a fair, prosperous and peaceful planet.

Kenneth Watterson**Non-Executive Director**

Kenneth has more than 30 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 fellow of both the Institute of Directors and the Chartered Institute for Securities and Investments.

**BAKER TILLY****20**
YEARS
OF EXCELLENCE**Independent Auditor's Report****To the Members of Argo Group Limited****Report on the Audit of the Financial Statements**

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Opinion

We have audited the consolidated financial statements of Argo Group Limited (the "Company"), and its subsidiaries (together with the Company "the Group"), which are presented in pages 17 to 43 and comprise the consolidated statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

This section of our auditor's report is intended to describe the matters selected from those communicated with those charged with governance that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. We have determined that there are no such matters to report.

Other information

The Board of Directors is responsible for the other information. The other information comprises the following:

- Chairman's statement
- Director's report
- Statement of Director's Responsibilities in respect of the consolidated financial statements

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Bulgaria
 Sofia T: +359 2 9580980

Romania
 Bucharest T: +40 21 3156100

Moldova
 Chisinau T: +373 22 233003



Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Maria Kaffa.



Maria Kaffa
Certified Public Accountant and Registered Auditor
for and on behalf of

Baker Tilly Klitou and Partners Ltd
Certified Public Accountants and Registered Auditors
Corner C Hatzopoulou & 30 Griva Digheni Avenue
CY-1066 Nicosia
Cyprus

Nicosia, 02 March 2017

ARGO GROUP LIMITED
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2016**

	Note	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Management fees		4,251	5,091
Performance fees		1,685	-
Other income		445	639
Revenue	2(e), 3	6,381	5,730
Legal and professional expenses		(490)	(388)
Management and incentive fees payable	2(f)	(68)	(79)
Operational expenses		(1,007)	(910)
Employee costs	4	(4,769)	(2,155)
Foreign exchange gain		(16)	69
Bad debts	11	(553)	(1,997)
Depreciation	9	(42)	(46)
Operating profit/(loss)	6	(564)	224
Interest income on cash and cash equivalents		137	190
Realised and unrealised gains/(losses) on investments		1,076	(3,342)
Profit/(loss) on ordinary activities before taxation	3	649	(2,928)
Taxation	7	(78)	(250)
Profit/(loss) for the year after taxation attributable to members of the Company	8	571	(3,178)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		(79)	(380)
Total comprehensive income for the year		492	(3,558)
		Year ended 31 December 2016 US\$	Year ended 31 December 2015 US\$
Earnings per share (basic)	8	0.01	(0.05)
Earnings per share (diluted)	8	0.01	(0.04)

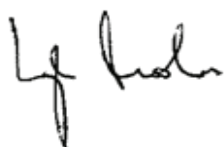
The directors consider that all results derive from continuing activities.

The notes on pages 21 to 43 form part of these consolidated financial statement.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000
Assets			
Non-current assets			
Fixtures, fittings and equipment	9	50	64
Financial assets at fair value through profit or loss	10	134	4,896
Loans and advances receivable	12	264	1,783
Total non-current assets		448	6,743
Current assets			
Financial assets at fair value through profit or loss	10	12,267	11,896
Trade and other receivables	11	2,870	966
Loans and advances receivable	12	66	-
Cash and cash equivalents	13	6,126	3,126
Total current assets		21,329	15,988
Total assets	3	21,777	22,731
Equity and liabilities			
Equity			
Issued share capital	14	481	674
Share premium		28,211	30,878
Revenue reserve		(5,668)	(6,239)
Foreign currency translation reserve	2(d)	(2,955)	(2,876)
Total equity		20,069	22,437
Current liabilities			
Trade and other payables	15	1,683	236
Taxation payable	7	25	58
Total current liabilities	3	1,708	294
Total equity and liabilities		21,777	22,731

These consolidated financial statements were approved by the Board of Directors on 2/3/17 and signed on its behalf by:



Kyriakos Rialas
Chief Executive Officer



Michael Kloter
Non-Executive Chairman

The notes on pages 21 to 43 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED 31 DECEMBER 2016

	Issued share capital 2015 US\$'000	Share premium 2015 US\$'000	Revenue reserve 2015 US\$'000	Foreign currency translation reserve 2015 US\$'000	Total 2015 US\$'000
As at 1 January 2015	674	30,878	(3,061)	(2,496)	25,995
Total comprehensive income					
Loss for the year after taxation	-	-	(3,178)	-	(3,178)
Other comprehensive income	-	-	-	(380)	(380)
As at 31 December 2015	674	30,878	(6,239)	(2,876)	22,437

	Issued share capital 2016 US\$'000	Share premium 2016 US\$'000	Revenue reserve 2016 US\$'000	Foreign currency translation reserve 2016 US\$'000	Total 2016 US\$'000
As at 1 January 2016	674	30,878	(6,239)	(2,876)	22,437
Total comprehensive income					
Profit for the year after taxation	-	-	571	-	571
Other comprehensive income	-	-	-	(79)	(79)
Transactions with owners recorded directly in equity					
Purchase of own shares (note 14)	(193)	(2,667)	-	-	(2,860)
As at 31 December 2016	481	28,211	(5,668)	(2,955)	20,069

The notes on pages 21 to 43 form part of these consolidated financial statements.

ARGO GROUP LIMITED**CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2016**

		Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Net cash inflow/(outflow) from operating activities	17	508	2,128
Cash flows from investing activities			
Interest received on cash and cash equivalents		7	14
Share buy back		(2,860)	-
Purchase of financial assets at fair value through profit or loss		(2,000)	(1,700)
Proceeds from sale of financial assets at fair value through profit or loss		7,467	-
Purchase of fixtures, fittings and equipment	9	(31)	(8)
Net cash used in investing activities		2,583	(1,694)
Net increase in cash and cash equivalents		3,091	434
Cash and cash equivalents at 1 January 2016 and 1 January 2015		3,126	2,821
Foreign exchange loss on cash and cash equivalents		(91)	(129)
Cash and cash equivalents as at 31 December 2016 and 31 December 2015		6,126	3,126

The notes on pages 21 to 43 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 places of business are at 10 Vasilissis Frederikis Street, 1066 Nicosia, Cyprus and 24-25 New Bond Street, London, W1S 2RR. 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 currencies of the Group undertakings are US Dollars, Sterling, Euros and Romanian Lei. The presentational currency is US Dollars. The Group has 27 (2015: 24) employees.

Wholly owned subsidiaries

Argo Capital Management (Cyprus) Limited
Argo Capital Management Limited
Argo Capital Management Property Limited
Argo Property Management Srl
North Asset Management Sarl

Country of incorporation

Cyprus
United Kingdom
Cayman Islands
Romania
Luxembourg

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, as adopted by the EU.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

The Directors have carried out a rigorous assessment of all the factors affecting the business in deciding to adopt the going concern basis for the preparation of the accounts. They have reviewed and examined the Group's financial and other processes including the annual budgeting process and expect the Group to have sufficient cash resources available in the foreseeable future. This has included the preparation of forecast financial information focussed on cash flow requirements through to at least March 2018. These forecasts reflect current cost patterns of the Group and take into consideration current liquidity constraints of funds under management and therefore their ability to settle management fees and other receivables (refer to notes 11 and 13).

On the basis of review of this forecast financial information, the liquid assets currently held and forecast inflows during the period, the Directors are confident that the Group has adequate financial resources available to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis for preparing the financial statements.

In the Directors' view activities are continuing on the above satisfactorily and they have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

(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 profit or loss. 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 profit or loss.

Impairment of intangible assets

At each reporting 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 reporting date. The resulting profits or losses are reflected in the Consolidated Statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)**(d) Foreign currency translation (continued)**

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 reporting 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.

(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 is accrued on a monthly basis on completion of management services. In the Argo funds revenue is based on the assets under management of each mutual fund and in the Argo Real Estate Opportunities Fund Limited ("AREOF") (managed by Argo Capital Management Property Limited) revenue is based on the gross proceeds of share placements.

Incentive fees arise monthly, quarterly or on realisation of an investment. Incentive fees are recognised in the month they arise. In addition, AREOF incentive fees may be triggered at any time on realisation of a property asset. The management and incentive fees receivable from AREOF are defined in the management contract between that company and Argo Capital Management Property Limited. The management contract has a fixed term expiring on 31 July 2018.

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. In November 2013 AREOF offered Argo Group Limited additional security for the continued support in the form of debentures and guarantees by underlying intermediate companies.

(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, after taking into account the assets' residual values, as follows:

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

(h) Financial assets held at fair value through profit or loss

IFRS 13 has been adopted from 1 January 2013. It establishes a single source of guidance for measuring fair value and requires disclosures about fair value measurements. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. IFRS 13 also includes disclosure requirements. The application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

All investments are classified as financial assets 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 profit or loss.

2. ACCOUNTING POLICIES (continued)**(h) Financial assets held at fair value through profit or loss (continued)**

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. Where funds contain level 3 assets the Directors will consider the carrying value based on information regarding future expected cash flows using appropriate valuation techniques such as discounted cash flow analysis. Investments in the management shares of The Argo Fund Limited, Argo Distressed Credit Fund Limited and Argo Special Situations Fund LP are stated at fair value, being the recoverable amount. The Argo Fund can no longer trade in Level 3 assets under the terms of its new prospectus dated 1 March 2016.

(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.

Trade and other receivables

Trade and other receivables are held at amortised cost and do not carry any interest. They 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. The carrying value of trade receivables equates to their fair value.

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 three 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 amortised cost.

(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. An estimate for provision for recovery is made when collection is no longer probable.

(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 substantively enacted by the reporting date.

2. ACCOUNTING POLICIES (continued)**(l) Current taxation (continued)**

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 profit or loss 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 reporting 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 reporting 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 reporting date and are recognised to the extent that it 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 reporting date.

(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 reporting 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 best judgements of information and financial data that have the most significant effect on the amounts recognised in the consolidated financial statements:

- Investments fair value
- Management fees
- Trade receivables
- Going concern
- Loans and advances

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.

2. ACCOUNTING POLICIES (continued)**(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.

(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)	EU Effective date (accounting periods commencing on or after)
Annual Improvements to IFRSs 2014–2016 Cycle – various standards	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 9 Financial Instruments (issued on 24 July 2014)	1 January 2018
IFRS 16 Leases	1 January 2019

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 2018 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 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 2016 US\$'000	Argo Capital Management (Cyprus) Limited 2016 US\$'000	Argo Capital Management Limited 2016 US\$'000	Argo Capital Management Property Limited 2016 US\$'000	Year ended 31 December 2016 US\$'000
Total revenues for reportable segments	600	994	3,525	2,645	7,764
Intersegment revenues	(600)	(783)	-	-	(1,383)
Total profit/(loss) for reportable segments	1,251	(280)	(837)	515	649
Intersegment profit/(loss)	600	183	(783)	-	-
Total assets for reportable segments	15,708	1,035	4,292	3,435	24,470
Total liabilities for reportable segments	38	27	2,622	1,714	4,401

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

	Year ended 31 December 2016 US\$'000
Revenues	
Total revenues for reportable segments	7,764
Elimination of intersegment revenues	(1,383)
Group revenues	6,381
Profit or loss	
Total profit for reportable segments	649
Other unallocated amounts	(-)
Profit on ordinary activities before taxation	649
Assets	
Total assets for reportable segments	24,470
Elimination of intersegment receivables	(2,693)
Group assets	21,777
Liabilities	
Total liabilities for reportable segments	4,401
Elimination of intersegment payables	(2,693)
Group liabilities	1,708

ARGO GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SEGMENTAL ANALYSIS (continued)

	Argo Group Ltd	Argo Capital Management (Cyprus) Limited	Argo Capital Management Limited	Argo Capital Management Property Limited	Year ended 31 December
	2015	2015	2015	2015	2015
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Total revenues for reportable segments	2,250	1,650	2,047	2,859	8,806
Intersegment revenues	(2,250)	-	(826)	-	(3,076)
Total profit/(loss) for reportable segments	(3743)	1,688	265	(1,098)	(2,888)
Intersegment profit/(loss)	-	826	(826)	-	-
Total assets for reportable segments	17,335	1,419	2,525	1,876	23,155
Total liabilities for reportable segments	91	89	98	475	753

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

	Year ended 31 December 2015 US\$'000
Revenues	
Total revenues for reportable segments	8,806
Elimination of intersegment revenues	(3,076)
Group revenues	5,730
Profit or loss	
Total loss for reportable segments	(2,888)
Other unallocated amounts	(40)
Loss on ordinary activities before taxation	(2,928)
Assets	
Total assets for reportable segments	23,155
Elimination of intersegment receivables	(424)
Group assets	22,731
Liabilities	
Total liabilities for reportable segments	753
Elimination of intersegment payables	(459)
Group liabilities	294

ARGO GROUP LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

4. EMPLOYEE COSTS

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Wages and salaries -under employment contract	3,334	1,756
Wages and salaries – under service contract	923	155
Social security costs	407	179
Other	105	65
	4,769	2,155

5. KEY MANAGEMENT PERSONNEL REMUNERATION

Included in employee costs are payments to the following:

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Directors and key management personnel	2,155	1,047

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

	Salaries US\$'00	Fees US\$'00	Benefit US\$'000	Cash bonus US\$'00	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Executive Directors						
Kyriakos Rialas	205	-	-	200	404	202
Andreas Rialas	208	-	6	600	814	225
Non-Executive Directors						
Michael Kloter	-	54	-	-	54	80
David Fisher	-	35	-	-	35	54
Ken Watterson	-	35	-	-	35	55

6. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging:

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Auditors' remuneration	67	105
Depreciation	41	46
Directors' fees	2,155	963
Operating lease payments	172	199

ARGO GROUP LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

7. TAXATION

Taxation rates applicable to the parent company and the Cypriot, UK, Luxembourg and Romanian subsidiaries range from 0% to 12.5% (2015: 0% to 20.25%).

Income Statement

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Taxation charge for the year on Group companies	78	250
Tax on profit on ordinary activities	78	250

The tax charge for the year can be reconciled to the loss on ordinary activities before taxation shown in the Consolidated Statement of Comprehensive Income as follows:

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Profit/(loss) before tax	649	(2,928)
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Timing differences	(1)	5
Non-deductible expenses	9	7
Other adjustments	70	(66)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	-	304
Tax charge	78	250

Balance Sheet

	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000
Corporation tax payable	25	58

8. EARNINGS PER SHARE

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares (see note 21).

	Year ended 31 December 2016 US\$'000	Year ended 31 December 2015 US\$'000
Profit/(loss) for the year after taxation attributable to members	571	(3,178)
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings	55,443,494	67,428,494
Effect of dilution (note 21)	4,840,000	4,090,000
Weighted average number of ordinary shares for diluted earnings per share	60,283,494	71,518,494
	Year ended 31 December 2016 US\$	Year ended 31 December 2015 US\$
Earnings per share (basic)	0.01	(0.05)
Earnings per share (diluted)	0.01	(0.04)

9. FIXTURES, FITTINGS AND EQUIPMENT

	Fixtures, fittings & equipment US\$'000
Cost	
At 1 January 2015	254
Additions	8
Disposals	-
Foreign exchange movement	(17)
At 31 December 2015	245
Additions	31
Disposals	(2)
Foreign exchange movement	(24)
At 31 December 2016	250
Accumulated Depreciation	
At 1 January 2015	147
Depreciation charge for period	46
Disposals	-
Foreign exchange movement	(12)
At 31 December 2015	181
Depreciation charge for period	41
Disposals	(2)
Foreign exchange movement	(20)
At 31 December 2016	200
Net book value	
At 31 December 2015	64
At 31 December 2016	50

ARGO GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Holding	Investment in management shares	31 December	31 December
		2016	2016
		Total cost	Fair value
		US\$'000	US\$'000
10	The Argo Fund Ltd	-	-
100	Argo Distressed Credit Fund Ltd	-	-
1	Argo Special Situations Fund LP	-	-
		-	-

Holding	Investment in ordinary shares	31 December	31 December
		2016	2016
		Total cost	Fair value
		US\$'000	US\$'000
32,104	The Argo Fund Ltd*	7,159	9,758
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	119
115	Argo Special Situations Fund LP	115	15
1,262	Argo Distressed Credit Fund Limited*	2,000	2,509
		10,262	12,401

Holding	Investment in management shares	31 December	31 December
		2015	2015
		Total cost	Fair value
		US\$'000	US\$'000
10	The Argo Fund Ltd	-	-
100	Argo Distressed Credit Fund Ltd	-	-
1	Argo Special Situations Fund LP	-	-
1	Argo Local Markets Fund	-	-
		-	-

Holding	Investment in ordinary shares	31 December	31 December
		2015	2015
		Total cost	Fair value
		US\$'000	US\$'000
51,261	The Argo Fund Ltd*	11,159	10,230
10,899,021	Argo Real Estate Opportunities Fund	988	119
115	Argo Special Situations Fund LLP	115	17
2,117	Argo Local Markets Fund Limited*	1,700	1,666
40,272	Sudan Recovery Fund Limited	4,760	4,760
		18,722	16,792

*Classified as current in the consolidated Statement of Financial Position

11. TRADE AND OTHER RECEIVABLES

	At 31 December 2016 US\$ '000	At 31 December 2015 US\$ '000
Trade receivables – Gross	11,078	9,174
Less: provision for impairment of trade receivables	(8,626)	(8,345)
Trade receivables - Net	2,452	829
Other receivables	354	66
Prepayments and accrued income	64	71
	2,870	966

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 reporting date except as disclosed below. Since the year end the Group received US\$1,850,000 as part settlement of these trade receivables.

The Group has provided AREOF with a notice of deferral in relation to 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 2016 total US\$Nil (2015: US\$Nil) after a bad debt provision of US\$6,401,507 (€6,069,505) (2015: US\$7,164,702 (€6,569,505)). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows. AREOF settled total fees of €2,776,000 (€2,500,000) during the year. In November 2013, AREOF offered Argo Group Limited additional security for the continued support in the form of debentures and guarantees by underlying intermediate companies. Argo Group Limited retains this additional security. The AREOF management contract has a fixed term expiring on 31 July 2018.

In November 2013 AREOF offered Argo Group Limited additional security for the continued support in the form of debentures and guarantees by underlying intermediate companies. In the Directors' view these amounts are fully recoverable although they have concluded that it would not be appropriate to continue to recognise income from these investment management services going forward, as the timing of such receipts may be outside the control of the Company and AREOF.

In the audited financial statements of AREOF at 30 September 2015 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.

At the year end, Argo Special Situations Fund LP owed the Group total management fees of US\$591,295 (2015: US\$689,310). This Fund is currently facing liquidity issues due to the debt financing arrangement put in place in 2014 however management continue to work to remedy this and the Directors are confident that these fees may be recovered in the future. During the year, the Group received US\$350,000 as part settlement of these management fees.

11. TRADE AND OTHER RECEIVABLES (continued)

The movement in the Group's provision for impairment of trade receivables is as follows:

	At 31 December 2016 US\$ '000	At 31 December 2015 US\$ '000
As at 1 January	8,345	5,687
Bad debt recovered	(2,776)	-
Provision charged during the year	3,329	3,302
Foreign exchange movement	(272)	(644)
As at 31 December	8,626	8,345

12. LOANS AND ADVANCES RECEIVABLE

	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000
Deposits on leased premises - current	66	-
Deposits on leased premises - non-current	13	90
Other loans and advances receivable - current	-	-
Other loans and advances receivable – non-current (see below)	251	1,693
	330	1,783

The non-current other loans and advances receivable comprise:

	At 31 December 2016 US\$'000	At 31 December 2015 US\$'000
Loan to Bel Rom Trei (see note (a) below)	-	1,437
Loan to AREOF (see Note 18)	23	24
Loan to The Argo Fund Limited	-	22
Loans to other AREOF Group entities (see Note 18)	226	208
Other loans	2	2
	251	1,693

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 2016 US\$'000	At 31 December 2015 US\$'000
Current:		
Lease expiring within one year	66	-
Non-current:		
Lease expiring in second year after the reporting date	-	78
Lease expiring in third year after the reporting date	13	-
Lease expiring in fourth year after the reporting date	-	12
	13	90

12. LOANS AND ADVANCES RECEIVABLE (continued)

- (a) In 2013 Argo Group advanced US\$1,090,600 (€1,000,000) to Bel Rom Trei (“Bel Rom”), an AREOF Group entity based in Romania that owns Sibiu Shopping City, in order to assist with its operational cash requirements. The full amount of the loan and accrued interest amounting to US\$1,490,031 (€1,337,611) was repaid during the year.

13. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents is a balance of US\$25,000 (€20,000) (2015: US\$30,000) 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. SHARE CAPITAL

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

	31 December 2016 No.	31 December 2016 US\$’000	31 December 2015 No.	31 December 2015 US\$’000
Issued and fully paid				
Ordinary shares of US\$0.01 each	48,098,494	481	67,428,494	674
	48,098,494	481	67,428,494	674

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (31 December 2015: Nil).

During the year, the Directors authorised the repurchase of 19,330,000 shares at a total cost of US\$2.9 million.

ARGO GROUP LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

15. TRADE AND OTHER PAYABLES

	At 31 December 2016 US\$ '000	At 31 December 2015 US\$ '000
Trade and other payables	122	32
Other creditors and accruals	1,561	204
	1,683	236

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

16. 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 reporting date, the Group had outstanding future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	At 31 December 2016 US\$ '000	At 31 December 2015 US\$ '000
Operating lease liabilities:		
Within one year	149	203
In the second to fifth years inclusive	116	279
	265	482

17. RECONCILIATION OF NET CASH OUTFLOW FROM OPERATING ACTIVITIES TO LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 December 2016 US\$ '000	Year ended 31 December 2015 US\$ '000
Profit/(loss) on ordinary activities before taxation	649	(2,928)
Interest income	(136)	(190)
Depreciation	41	46
Increase/(decrease) in payables	1,444	(85)
(Increase)/decrease in receivables	(322)	2,257
(Increase)/decrease in fair value of current asset investments	(1,076)	3,342
Net foreign exchange loss/(gain)	16	(69)
Income taxes paid	(108)	(245)
	508	2,128

18. 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 reporting date the Company holds investments in The Argo Fund Limited, Argo Real Estate Opportunities Fund Limited ("AREOF"), Argo Special Situations Fund LP and Argo Distressed Credit Fund Limited. These investments are reflected in the consolidated financial statements at a fair value of US\$9,757,845, US\$118,866, US\$14,823 and US\$2,509,697 respectively.

The Group has provided AREOF with a notice of deferral in relation to 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 2016 total US\$Nil (2015: US\$Nil) after a bad debt provision of US\$6,401,507 (€6,069,505) (2015: US\$7,164,702 (€6,569,505)). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows. AREOF settled total fees of €2,776,000 (€2,500,000) during the year. In November 2013, AREOF offered Argo Group Limited additional security for the continued support in the form of debentures and guarantees by underlying intermediate companies. Argo Group Limited retains this additional security. The AREOF management contract has a fixed term expiring on 31 July 2018

On 21 November 2013 the Argo Group provided a loan of US\$410,236 (€388,960) to AREOF at a rate of 10% per annum to enable the company to service interest payments under a bank loan agreement. A bad debt provision has been raised against the full amount of the loan and accrued interest amounting to US\$537,915 (€510,017).

During the year, the Argo Group made further loans totalling US\$756,472 (€717,239) to AREOF at a rate of 10% per annum to support the company to pay operational and restructuring costs. At year end, total such loans and interest were US\$1,187,320 (€1,125,742) (2015:US\$370,561 (€351,342)). A full provision has been made in the consolidated financial statements against these balances at both at the end of the current and prior year.

At the year end, Argo Group was owed a total balance of US\$232,367 (€220,316) by other AREOF Group entities. This balance comprises various loans that are unsecured, interest free and repayable on demand. A bad debt provision of US\$105,043 (€99,596) has been made on the accounts in respect of these balances.

In addition to the above, the Argo Group is owed a further US\$292,676(€277,497) by AREOF against which a bad debt provision for US\$267,979 (€254,081) has been raised.

In the audited consolidated financial statements of AREOF at 30 September 2015 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 consolidated financial statements on a going concern basis.

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

19. 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-subsiary investments in funds were entered into with the purpose of providing seed capital, supporting liquidity and demonstrating the commitment of the Group towards its fund investors.

(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 (refer to note 10). 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 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, Bank of Cyprus and Bancpost.

(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 and in which the Group holds significant investments as detailed in notes 10, 11 and 13. As explained within these notes the Group is experiencing collection delays with regard to management fees receivable and monies advanced. Some of the investments in funds under management (note 10) are illiquid and may be subject to events materially impacting recoverable value.

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 statement of financial position.

At the reporting date, the financial net assets past due but not impaired amounted to US\$746,851 (2015: US\$2,148,606).

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 payables are normally on 30-day terms (note 15).

As disclosed in note 2(a), Accounting Convention: Going Concern, the Group has performed an assessment of available liquidity to meet liabilities as they fall due during the forecast period. The Group has concluded that it has sufficient resources available to manage its liquidity risk during the forecast period.

19. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(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, Romanian Lei and Euros with carrying amounts as follows: US dollar – US\$1,960,000, Sterling – US\$1,037,000, Euros - US\$3,126,000 and Romanian Lei – US\$3,000.

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 2016 the exposure would be a profit or loss to the Consolidated Statement of Comprehensive Income of approximately US\$208,000 (2015: US\$43,000).

(g) Interest rate risk

The interest rate profile of the Group at 31 December 2016 is as follows:

	Total as per balance sheet US\$ '000	Variable interest rate instruments* US\$ '000	Fixed interest rate instruments US\$ '000	Instruments on which no interest is receivable US\$ '000
Financial Assets				
Financial assets at fair value through profit or loss	12,401	-	-	12,401
Loans and receivables	3,200	-	-	3,200
Cash and cash equivalents	6,126	899	1,927	3,300
	21,727	899	1,927	18,901
Financial liabilities				
Trade and other payables	1,683	-	-	1,683

* Changes in the interest rate may cause movements.

The average interest rate at the year end was 0.17%. Any movement in interest rates would have an immaterial effect on the profit/(loss) for the year.

19. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

The interest rate profile of the Group at 31 December 2015 is as follows:

	Total as per balance sheet US\$ '000	Variable interest rate instruments* US\$ '000	Fixed interest rate instruments US\$ '000	Instruments on which no interest is receivable US\$ '000
Financial Assets				
Financial assets at fair value through profit or loss	16,792	-	-	16,792
Loans and receivables	2,749	-	1,437	1,312
Cash and cash equivalents	3,126	602	2,274	250
	22,667	602	3,711	18,354
Financial liabilities				
Trade and other payables	236	-	-	236

* Changes in the interest rate may cause movements.

The average interest rate at the year end was 0.01%. Any movement in interest rates would have an immaterial effect on the profit/(loss) for the year.

(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 2016 US\$ '000	At 31 December 2015 US\$ '000
Financial Assets		
Financial assets at fair value through profit or loss	12,401	16,792
Loans and receivables	3,200	2,749
Cash and cash equivalents	6,126	3,126
	21,727	22,667
Financial Liabilities		
Trade and other payables	1,683	236

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 administrators and are based on the fair value of the underlying net assets of the funds because, although the funds are quoted, there is no active market for any of the investments held.

19. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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 2016			
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total US\$ '000
Financial assets at fair value through profit or loss	-	12,267	134	12,401

	At 31 December 2015			
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total US\$ '000
Financial assets at fair value through profit or loss	-	11,896	4,896	16,792

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

	Unlisted closed ended investment fund Real Estate US\$ '000	Listed open ended investment fund Emerging markets US\$ '000	Total US\$ '000
Balance as at 1 January 2016	119	4,777	4,896
Total losses recognized in profit or loss	-	(2,883)	(2,883)
Purchases	-	-	-
Sales	-	(1,879)	(1,879)
Transfer to level 2	-	-	-
Balance as at 31 December 2016	119	15	134

20. EVENTS AFTER THE REPORTING DATE

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

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 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 were:

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 due to the differential in exercise price and share price.

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	24.0p	4,090,000
Granted during the period	24.0p	950,000
Forfeited during the period	24.0p	(200,000)
<u>Outstanding at end of period</u>	<u>24.0p</u>	<u>4,840,000</u>
<u>Exercisable at end of period</u>	<u>24.0p</u>	<u>4,840,000</u>

The options outstanding at 31 December 2016 have an exercise price of 24p and a weighted average contractual life of 10 years, with the fourth and final tranche of shares being exercisable on or after 1 May 2015. Outstanding share options are contingent upon the option holder remaining an employee of the Group. They expire after 10 years.

No share options were issued during the period.



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ARGO