



**ARGO GROUP LIMITED**  
**Consolidated Financial Statements**  
**For the year ended 31 December 2018**

**MANAGEMENT AND ADMINISTRATION**

**DIRECTORS**

David Fisher  
Michael Klofer  
Andreas Rialas  
Kyriakos Rialas  
Kenneth Watterson

**REGISTERED OFFICE**

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Isle of Man  
IM1 1LB

**PRINCIPAL BANKERS**

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The Drummond House  
Redheughs Avenue  
Edinburgh EH12 9TH

Bank of Cyprus  
51 Stasinou Street  
Ayia Paraskevi  
Nicosia  
Cyprus

**AUDITORS**

Baker Tilly Klitou and Partners Ltd  
Corner C Hatzopoulou & 30 Griva Digheni Avenue  
1066 Nicosia  
Cyprus

**NOMINATED ADVISER AND STOCKBROKER**

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EC4M 9AF

**REGISTRAR**

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**CHAIRMAN'S STATEMENT**

**Key highlights for the twelve months ended 31 December 2018**

- Revenues US\$4.6 million (2017: US\$10.3 million)
- Operating loss US\$0.8 million (2017: operating profit US\$2.0 million)
- Loss before tax US\$1.2 million (2017: profit of US\$4.7 million)
- Net assets US\$23.3 million (2017: US\$24.7 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 multi strategy investments in emerging markets.

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 2018.

For the year ended 31 December 2018 the Group generated revenues of US\$4.6 million (2017: US\$10.3 million) with management fees accounting for US\$4.1 million (2017: US\$4.2 million). The Group also generated incentive fees of US\$0.3 million (2017: US\$ 5.9 million) during the year. The incentive fees earned during the year were from Argo Distressed Credit Fund ("ADCF").

Total operating costs, ignoring bad debt provisions, are US\$4.0 million (2017: US\$7.2 million). The decrease in operating costs is mainly due to no variable employee costs being paid during the year. The Group has provided against management fees of US\$1.2 million (€1.0 million) (2017: US\$1.4 million, €1.2 million) due from AREOF. 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\$0.8 million (2017: operating profit US\$2.0 million) and a loss before tax of US\$1.2 million (2017: profit of US\$4.7 million) reflecting the realised and unrealised loss on current asset investments of US\$0.6 million (2017: profit of US\$2.5 million).

At the year end, the Group had net assets of US\$23.3 million (2017: US\$24.7 million) and net current assets of US\$22.7 million (2017: US\$24.2 million) including cash reserves of US\$4.0 million (2017: US\$5.0 million). The Directors are not declaring a final dividend.

Net assets include investments in TAF, AREOF, Argo Special Situations Fund LP ("ASSF") and ADCF (together referred to as "the Argo funds") at fair values of US\$18.2 million (2017: US\$10.6 million), US\$0.1 million (2017: US\$0.1 million), US\$0.04 million (2017: US\$0.03 million), and US\$ nil (2017: US\$4.2 million) respectively.

## ARGO GROUP LIMITED

### 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\$0.6 million (31 December 2017: US\$6.2 million). The Group received full settlement of these fees in January 2019.

The Argo funds ended the year with Assets under Management ("AUM") at US\$130.1 million (2017: US\$146.8), 11% lower 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 permanent employees of the Group at 31 December 2018 was 23 (2017: 23).

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 2018 total US\$nil (2017: US\$nil) after a bad debt provision of US\$8.9 million (€7.8 million) (2017: US\$8.2 million (€6.8 million)). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows. 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 expires on the later of its termination or the sale of all assets in the Portfolio. The life of the fund was extended to 30 June 2034 during 2017.

#### Fund performance

##### The Argo Funds

Fund	Launch date	2018 Year total	2017 Year total	Since inception	Annualised performance	Sharpe ratio	Down months	AUM
		%	%	%	CAGR %			US\$m
The Argo Fund	Oct-00	-5.65	10.70	217.44	7.32	0.46	68 of 219	79.7
Argo Distressed Credit Fund	Oct-08	1.58	65.60	234.51	14.47	0.62	55 of 123	27.5
Argo Special Situations Fund LP	Feb-12	26.8	115.45	-64.68	-0.86	-0.01	66 of 89	22.9
<b>Total</b>								<b>130.1</b>

\* NAV only officially measured once a year in September.

AREOF's adjusted NAV at 30 September 2018\* was US\$15.0 million (€13.1 million), compared with US\$0.7 million (€0.6 million) a year earlier. The Adjusted NAV per share at 30 September 2018 was US\$0.0247 (€0.0216) (2017: US\$0.001 (€0.001)). The improvement in NAV follows the completion of the restructuring of the loan supporting Riviera Shopping City in June 2018.

The main shareholders in AREOF are:

Entity	No of Shares	%
Argo Distressed Credit Fund	175,694,400	
Argo Special Situations Fund LP	300,396,609	
Argo Group Limited	30,056,500	
<b>Total</b>	<b>506,147,509</b>	<b>83%</b>

**CHAIRMAN'S STATEMENT (continued)****Fund performance (continued)**

2018 saw a sharp fall in valuations across most asset classes, driven by a number of factors including global growth slowdown fears; political uncertainty in both developed and emerging markets; US dollar strength amidst Fed quantitative tightening and interest rate hikes; and conflict between the US and some of its major trading partners, most notably China. As a result, investors were quick to call the end to both equity and fixed income bull markets. Emerging markets were not immune from the change in sentiment and in addition were affected by the currency crises in Argentina and Turkey. The NAV of TAF fell by 5.65% in 2018, compared with a gain of 10.7% the previous year. The Group's flagship fund is a diversified debt and macro fund which seeks to capture alpha through long and short investment in EM corporate, sovereign and liquid distressed credit and FX. TAF also uses a macro hedging overlay strategy to actively manage portfolio duration, volatility and correlation which helped pare losses during the year as it suffered on the back of the aforementioned EM crises and some trades which were affected by idiosyncratic factors. In particular, the fund's exposure to Argentina and Venezuela weighed on the portfolio although TAF's bottom up focused investment style allowed it to avoid various credit events and generated reasonable results considering the overall market environment. Investors are likely to continue being selective in 2019, focusing on countries where economic growth differentials are widening versus developed markets, fiscal policy remains responsible and external vulnerabilities are kept in check. For specific EM countries, domestic politics will play an important role in performance, with delivery from newly elected leaders important in several big Latin American countries, most notably Brazil. Indonesia has its presidential poll in April – where our expectation is that Jokowi will be re-elected - and India is also holding a general election in May.

Credit differentiation will continue to be key in 2019, with a focus on issuers with attractive uncorrelated investment cases, solid liquidity and low refinancing risk. The AUM of TAF was US\$79.7 million at the end of the year and marketing activity is being continued with the objective of reaching an AUM level that would make the fund qualify for investment from institutional investors.

The NAV of ADCF rose a more modest 1.58% in 2018. The fund's largest position related to the leasing of a catalyst to an Indonesian refinery. Litigation had been commenced in Singapore in an effort to resolve the impasse between the ADCF and the debtor, but a settlement was finally agreed in September 2018 which resulted in a partial cash disbursement. It is anticipated that the balance of the monies owed will be realised in the first half of 2019.

ASSF also benefited from the litigation settlement referred to earlier. Its NAV rose by 26.8%, but this was due to approximately one third of investors participating in a tender offer at a discount to NAV which utilised proceeds from the Indonesian leasing receivable.

**Dividends**

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.

The Board will make a separate announcement on 7 March 2019 regarding a return of capital to shareholders via a buyback of shares.

**Outlook**

As previously stated, a significant increase in AUM is still required to ensure sustainable profits on a recurring management fee basis. The Group is well placed with capacity to absorb such an increase in AUM with negligible impact on operational costs.

Raising AUM remains Argo's top priority over the coming year. The Group's marketing efforts continues to focus on TAF which has an 18 year track record. However, the Group continues to seek opportunities to increase AUM either through existing fund structures or by identifying external partners with whom to cooperate.

**CHAIRMAN'S STATEMENT (continued)**

**Outlook (continued)**

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.

A handwritten signature in blue ink, appearing to read 'M Kloter', with a stylized flourish at the end.

Michael Kloter  
Non-Executive Chairman

Date: 6 March 2019

**DIRECTORS' REPORT**

The Directors present their annual report and the audited accounts of the Group for the year ended 31 December 2018.

**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 other comprehensive income is set out on page 17. The Chairman's Statement set out on page 3 includes other 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.

The Board will make a separate announcement on 7 March 2019 regarding a return of capital to shareholders via a buyback of shares.

**Directors and their interests**

The Directors, who served throughout the year and held office at 31 December 2018 and to date, along with their beneficial interests (including those of connected parties) in the ordinary shares of the Company are as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>Ordinary shares</b>	<b>Ordinary shares</b>
	<b>No.</b>	<b>No.</b>
Michael Kloter	1,000,000	1,000,000
Kyriakos Rialas	8,768,363	8,768,363
Andreas Rialas	16,028,145	16,028,145
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 15,567,312 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 consolidated financial statements.



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

On 23 January 2019 the following interests in 3% or more of the Company's Ordinary share capital had been reported:

	<b>No. of Ordinary shares</b>	<b>Percentage of issued capital</b>
Lynchwood Nominees Limited 2006420 Acct	29,963,107	63.71%
Jim Nominees Limited Jarvis Acct	3,514,018	7.47%
Pershing Nominees Limited Perny Acct	2,597,905	5.52%
HSBC Global Custody Nominee (UK) Limited 683224 Acct	1,925,000	4.09%

**Corporate governance statement**

The Directors recognise the importance of sound corporate governance and intend to comply with the Corporate Governance Guidelines, to the extent appropriate for a company of its nature and size.

The Corporate Governance Guidelines were devised by the Quoted Companies Alliance ("QCA"), in consultation with a number of significant institutional small company investors, as an alternative corporate governance code applicable to AIM companies. An alternative code was proposed because the QCA considered the Combined Code to be inappropriate to many AIM companies.

The Corporate Governance Guidelines state that, "The purpose of good corporate governance is to ensure that the company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term." The Board will meet at least quarterly to review the Group's strategy and oversee the Group's progress towards its goals. The Board has established Audit and Remuneration Committees, further details of which are set out below. Given the compact size of the Board, the Directors do not believe that there is a requirement to form a Nomination Committee.

**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 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\$3,531 (2017: US\$5,500).

**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 2018 was 4 (2017: 1).

**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: 06 March 2019

**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**

Andreas is the Founder and CIO of Argo Capital Management. Prior to founding Argo in 2000, Andreas worked for Deutsche Bank for three years in the emerging markets proprietary trading division, trading in emerging markets loans and trade finance specialist products. Before that, he was at London Forfaiting (Asia) Ltd as Head of Secondary Debt Trading in emerging markets. At Argo, Andreas built up a formidable distressed/activist reputation in emerging markets and spearheaded some of the firm's most successful distressed debt/restructuring investments across global emerging markets. Andreas studied Law at the University of London, graduating in 1991, and subsequently qualified to be an English Barrister specializing in banking law 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 Investment Committee of Da Vinci CIS PE Fund 2, (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 and PE 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 MENSA, 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 half 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 the Institute of Directors and recently retired as a Chartered Fellow of the Chartered Institute for Securities and Investments.

**REPORT OF THE INDEPENDENT AUDITORS, BAKER TILLY KILTOU AND PARTNERS LTD, TO THE MEMBERS OF ARGO GROUP LIMITED**

**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 2018, 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 2018, 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 Group 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.

**REPORT OF THE INDEPENDENT AUDITORS, BAKER TILLY KILTOU AND PARTNERS LTD, TO THE MEMBERS OF ARGO GROUP LIMITED (continued)**

**Responsibilities of the Board of Directors for the Consolidated 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 consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group'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 Group'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 Group'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 Group 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.



**REPORT OF THE INDEPENDENT AUDITORS, BAKER TILLY KILTOU AND PARTNERS LTD, TO THE MEMBERS OF ARGO GROUP LIMITED (continued)**

**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, 06 March 2019

**ARGO GROUP LIMITED**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**YEAR ENDED 31 DECEMBER 2018**

	Note	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Management fees		4,086	4,165
Performance fees		268	5,887
Other income		245	208
<b>Revenue</b>	2(e), 3	4,599	10,260
Legal and professional expenses		(361)	(289)
Management and incentive fees payable		(70)	(68)
Operational expenses		(1,005)	(1,022)
Employee costs	4	(2,604)	(5,728)
Foreign exchange gain		1	(31)
Bad debts	11	(1,350)	(1,110)
Depreciation	9	(12)	(26)
<b>Operating (loss)/profit</b>	6	(802)	1,986
Interest income on cash and cash equivalents		194	200
Realised and unrealised (losses)/gains on investments		(600)	2,549
<b>(Loss)/profit on ordinary activities before taxation</b>	3	(1,208)	4,735
Taxation	7	(28)	(194)
<b>(Loss)/profit for the year after taxation attributable to members of the Company</b>	8	(1,236)	4,541
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		(155)	250
<b>Total comprehensive income for the year</b>		(1,391)	4,791
		<b>Year ended 31 December 2018 US\$</b>	<b>Year ended 31 December 2017 US\$</b>
<b>Earnings per share (basic)</b>	8	(0.03)	0.10
<b>Earnings per share (diluted)</b>	8	(0.02)	0.09

The directors consider that all results derive from continuing activities.

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

**ARGO GROUP LIMITED****CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018**

	Note	At 31 December 2018 US\$'000	At 31 December 2017 US\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Land, fixtures, fittings and equipment	9	212	227
Financial assets at fair value through profit or loss	10	159	151
Loans and advances receivable	12	118	125
<b>Total non-current assets</b>		<b>489</b>	<b>503</b>
<b>Current assets</b>			
Financial assets at fair value through profit or loss	10	18,193	14,800
Trade and other receivables	11	751	6,442
Tax receivable	7	5	-
Cash and cash equivalents	13	4,005	5,031
<b>Total current assets</b>		<b>22,960</b>	<b>26,273</b>
<b>Total assets</b>	<b>3</b>	<b>23,449</b>	<b>26,776</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Issued share capital	14	470	470
Share premium		28,022	28,022
Revenue reserve		(2,363)	(1,127)
Foreign currency translation reserve	2(d)	(2,860)	(2,705)
<b>Total equity</b>		<b>23,269</b>	<b>24,660</b>
<b>Current liabilities</b>			
Trade and other payables	15	180	2,097
Taxation payable	7	-	19
<b>Total current liabilities</b>	<b>3</b>	<b>180</b>	<b>2,116</b>
<b>Total equity and liabilities</b>		<b>23,449</b>	<b>26,776</b>

These consolidated financial statements were approved by the Board of Directors on 6 March 2019 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.

**ARGO GROUP LIMITED**
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
YEAR ENDED 31 DECEMBER 2018**

	Issued share capital 2017 US\$'000	Share premium 2017 US\$'000	Revenue reserve 2017 US\$'000	Foreign currency translation reserve 2017 US\$'000	Total 2017 US\$'000
<b>As at 1 January 2017</b>	481	28,211	(5,668)	(2,955)	20,069
<b>Total comprehensive income</b>					
Profit for the year after taxation	-	-	4,541	-	4,541
Other comprehensive income	-	-	-	250	250
<b>Transactions with owners recorded directly in equity</b>					
Purchase of own shares (note 14)	(11)	(189)	-	-	(200)
<b>As at 31 December 2017</b>	470	28,022	(1,127)	(2,705)	24,660

	Issued share capital 2018 US\$'000	Share premium 2018 US\$'000	Revenue reserve 2018 US\$'000	Foreign currency translation reserve 2018 US\$'000	Total 2018 US\$'000
<b>As at 1 January 2018</b>	470	28,022	(1,127)	(2,705)	24,660
<b>Total comprehensive income</b>					
Loss for the year after taxation	-	-	(1,236)	-	(1,236)
Other comprehensive loss	-	-	-	(155)	(155)
<b>As at 31 December 2018</b>	470	28,022	(2,363)	(2,860)	23,269

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 2018**

		Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
<b>Net cash inflow/(outflow) from operating activities</b>	17	3,136	(933)
<b>Cash flows from investing activities</b>			
Interest received on cash and cash equivalents		22	22
Share buy back		-	(200)
Purchase of financial assets at fair value through profit or loss	10	(4,000)	-
Proceeds from sale of financial assets at fair value through profit or loss		-	-
Purchase of fixtures, fittings and equipment	9	(8)	(197)
<b>Net cash used in investing activities</b>		<b>(3,986)</b>	<b>(375)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(850)</b>	<b>(1,308)</b>
Cash and cash equivalents at 1 January 2018 and 1 January 2017		5,031	6,126
Foreign exchange gain/(loss) on cash and cash equivalents		(176)	213
<b>Cash and cash equivalents as at 31 December 2018 and 31 December 2017</b>		<b>4,005</b>	<b>5,031</b>

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 2018

**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 23 (2017: 23) employees.

**Wholly owned subsidiaries**

Argo Capital Management (Cyprus) Limited  
Argo Capital Management Limited  
Argo Capital Management Property Limited  
Argo Property Management Srl

**Country of incorporation**

Cyprus  
United Kingdom  
Cayman Islands  
Romania

**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 2020. 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 consolidated financial statements.

The Directors have therefore concluded that it is appropriate to prepare the consolidated financial statements on a going concern basis.

**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.

**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 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 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) 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

**(g) IFRS 9 "Financial instruments"**

IFRS 9 "Financial instruments" replaces the provisions of IAS 39 that relate to recognition and derecognition of financial instruments and classification and measurement of financial assets and financial liabilities. IFRS 9 further introduces new principles for hedge accounting and a new forward-looking impairment model for financial assets.

The new standard requires debt financial assets to be classified into two measurement categories: those to be measured subsequently at fair value (either through other comprehensive income (FVOCI) or through profit or loss (either FVTPL or FVPL) and those to be measured at amortized cost. The determination is made at initial recognition. For debt financial assets the classification depends on the entity's business model for managing its financial instruments and the contractual cash flows characteristics of the instruments. For equity financial assets it depends on the entity's intentions and designation.

In particular, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other



**2. ACCOUNTING POLICIES (continued)**

**(g) IFRS 9 "Financial instruments"(continued)**

comprehensive income. Lastly, assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

For investments in equity instruments that are not held for trading, the classification depends on whether the entity has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. If no such election has been made or the investments in equity instruments are held for trading they are required to be classified at fair value through profit or loss.

IFRS 9 also introduces a single impairment model applicable for debt instruments at amortised cost and fair value through other comprehensive income and removes the need for a triggering event to be necessary for recognition of impairment losses. The new impairment model under IFRS 9 requires the recognition of allowances for doubtful debts based on expected credit losses (ECL), rather than incurred credit losses as under IAS 39. The standard further introduces a simplified approach for calculating impairment on trade receivables as well as for calculating impairment on contract assets and lease receivables; which also fall within the scope of the impairment requirements of IFRS 9.

For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to the entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

The Group has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

**(h) 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.

**(i) Financial instruments**

**Financial assets – Classification**

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost

The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset. On initial recognition, the Group may irrevocably designate a debt financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All other financial assets are classified as measured at FVTPL.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

**2. ACCOUNTING POLICIES (continued)****(i) Financial instruments (continued)**

Currently the Group holds only investments which have been classified as financial assets at fair value through profit or loss. 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.

**Financial assets – Measurement**

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

**Financial assets - impairment - credit loss allowance for ECL**

From 1 January 2018, the Group assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at Amortized Cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

**Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash at bank. Cash and cash equivalents are carried at Amortized Cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

**Financial Liabilities**

Financial liabilities are initially recognised at fair value and classified as subsequently measured at amortised cost, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

**(j) Loans and borrowings**

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings, using the effective interest method, unless they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset. Loans and borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position date.

**(k) 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)**

**(k) 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.

**(l) 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 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.

**(m) 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.

**(n) 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)**

**(o) Financial instruments and fair value hierarchy**

The following represents the fair value hierarchy of financial instruments measured at fair value in the consolidated 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.

**(p) 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:

**(i) Adopted by the EU**

<b>New/Revised International Financial Reporting Standards (IAS/IFRS)</b>	<b>EU Effective date</b> (accounting periods commencing on or after)
IFRS 16 Leases	1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments"	1 January 2019

**(ii) Not adopted by the EU**

<b>New/Revised International Financial Reporting Standards (IAS/IFRS)</b>	<b>Effective date - not yet endorsed by the EU</b> (accounting periods commencing on or after)
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle – various standards	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.

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

**(q) 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

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

For the year ended 31 December 2018

**3. SEGMENTAL ANALYSIS (continued)**

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 2018 US\$'000	Argo Capital Management (Cyprus) Limited 2018 US\$'000	Argo Capital Management Limited 2018 US\$'000	Argo Capital Management Property Limited 2018 US\$'000	Year ended 31 December 2018 US\$'000
Total revenues for reportable segments	-	793	3,172	1,427	5,392
Intersegment revenues	-	(793)	-	-	(793)
Total profit/(loss) for reportable segments	1,865	(773)	(1,726)	(602)	(1,236)
Intersegment profit/(loss)	2,800	(1,000)	(1,800)	-	-
Total assets for reportable segments	18,709	1,492	1,366	1,882	23,449
Total liabilities for reportable segments	38	24	73	45	180

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

	Year ended 31 December 2018 US\$'000
<b>Revenues</b>	
Total revenues for reportable segments	5,392
<b>Elimination</b> of intersegment revenues	(793)
<b>Group revenues</b>	<b>4,599</b>
<b>Profit or loss</b>	
Total loss for reportable segments	(1,236)
Other unallocated amounts	(-)
<b>Loss on ordinary activities</b>	<b>(1,236)</b>
<b>Assets</b>	
Total assets for reportable segments	24,425
Elimination of intersegment receivables	(976)
<b>Group assets</b>	<b>23,449</b>
<b>Liabilities</b>	
Total liabilities for reportable segments	1,156
Elimination of intersegment payables	(976)
<b>Group liabilities</b>	<b>180</b>

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

For the year ended 31 December 2018

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
	2017	2017	2017	2017	2017
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Total revenues for reportable segments	-	2,166	8,660	1,599	12,425
Intersegment revenues	-	(2,165)	-	-	(2,165)
Total profit/(loss) for reportable segments	2,269	1,276	1,482	(486)	4,541
Intersegment profit/(loss)	-	2,165	(2,165)	-	-
Total assets for reportable segments	15,846	1,107	6,941	2,882	26,776
Total liabilities for reportable segments	41	36	1,693	346	2,116

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

	Year ended 31 December 2017 US\$'000
<b>Revenues</b>	
Total revenues for reportable segments	12,425
Elimination of intersegment revenues	(2,165)
<b>Group revenues</b>	<b>10,260</b>
<b>Profit or loss</b>	
Total loss for reportable segments	4,541
Other unallocated amounts	(-)
<b>Profit on ordinary activities</b>	<b>4,541</b>
<b>Assets</b>	
Total assets for reportable segments	29,923
Elimination of intersegment receivables	(3,147)
<b>Group assets</b>	<b>26,776</b>
<b>Liabilities</b>	
Total liabilities for reportable segments	5,263
Elimination of intersegment payables	(3,147)
<b>Group liabilities</b>	<b>2,116</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**4. EMPLOYEE COSTS**

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Wages and salaries -under employment contract	1,977	4,505
Wages and salaries – under service contract	333	564
Social security costs	214	570
Other	79	89
	2,603	5,728

**5. KEY MANAGEMENT PERSONNEL REMUNERATION**

Included in employee costs are payments to the following:

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Directors and key management personnel	1,005	3,247

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

	Salaries US\$'000	Fees US\$'000	Benefits US\$'000	Cash bonus US\$'000	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
<b>Executive Directors</b>						
Kyriakos Rialas	219	-	-	-	219	459
Andreas Rialas	206	-	11	-	217	1,707
<b>Non-Executive Directors</b>						
Michael Kloter	-	52	-	-	52	52
David Fisher	-	33	-	-	33	32
Ken Watterson	-	33	-	-	33	32

**6. OPERATING (LOSS)/PROFIT**

Operating (loss)/profit is stated after charging:

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Auditors' remuneration	73	74
Depreciation	12	26
Directors' fees	1,005	3,170
Operating lease	251	203

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**7. TAXATION**

Taxation rates applicable to the parent company and the Cypriot, UK, Luxembourg and Romanian subsidiaries range from 0% to 12.5% (2017: 0% to 12.5%).

**Consolidated statement of profit or loss**

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Taxation charge for the year on Group companies	28	194
<b>Tax on profit on ordinary activities</b>	<b>28</b>	<b>194</b>

The tax charge for the year can be reconciled to the profit on ordinary activities before taxation shown in the consolidated statement of profit or loss as follows:

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
(Loss)/profit before tax	(1,236)	4,735
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Timing differences	(2)	(1)
Non-deductible expenses	6	2
Other adjustments	(20)	(231)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	44	424
Tax charge	28	194

**Consolidated statement of financial position**

	At 31 December 2018 US\$'000	At 31 December 2017 US\$'000
Corporation tax (receivable)/payable	(5)	19

**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).



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

For the year ended 31 December 2018

**8. EARNINGS PER SHARE (continued)**

	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
(Loss)/profit for the year after taxation attributable to members	(1,236)	4,541
	No. of Shares	No. of Shares
Weighted average number of ordinary shares for basic earnings	47,032,878	47,307,615
Effect of dilution (note 21)	4,340,000	4,340,000
Weighted average number of ordinary shares for diluted earnings per share	51,372,878	51,647,615
	Year ended 31 December 2018 US\$	Year ended 31 December 2017 US\$
Earnings per share (basic)	(0.03)	0.10
Earnings per share (diluted)	(0.02)	0.09

**9. LAND, FIXTURES, FITTINGS AND EQUIPMENT**

	Fixtures, fittings & US\$'000	Land US\$'000	Total US\$'000
<b>Cost</b>			
At 1 January 2017	250	-	250
Additions	4	193	197
Disposals	-	-	-
Foreign exchange movement	15	-	15
At 31 December 2017	269	193	462
Additions	8	-	8
Disposals	-	-	-
Foreign exchange movement	(11)	(9)	(20)
At 31 December 2018	266	184	450
<b>Accumulated Depreciation</b>			
At 1 January 2017	200	-	200
Depreciation charge for period	26	-	26
Disposals	-	-	-
Foreign exchange movement	9	-	9
At 31 December 2017	235	-	235
Depreciation charge for period	12	-	12
Disposals	-	-	-
Foreign exchange movement	(9)	-	(9)
At 31 December 2018	238	-	238
<b>Net book value</b>			
At 31 December 2017	34	193	227
At 31 December 2018	28	184	212

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

For the year ended 31 December 2018

**10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

		31 December 2018	31 December 2018
<b>Holding</b>	<b>Investment in management shares</b>	<b>Total cost US\$'000</b>	<b>Fair value US\$'000</b>
10	The Argo Fund Ltd	-	-
100	Argo Distressed Credit Fund Ltd	-	-
1	Argo Special Situations Fund LP	-	-
		-	-
<b>Holding</b>	<b>Investment in ordinary shares</b>	<b>Total cost US\$'000</b>	<b>Fair value US\$'000</b>
57,309	The Argo Fund Ltd*	15,472	18,193
30,056,500	Argo Real Estate Opportunities Fund Ltd	988	119
115	Argo Special Situations Fund LP	115	40
-	Argo Distressed Credit Fund Limited*	-	-
		<b>16,575</b>	<b>18,352</b>
		31 December 2017	31 December 2017
<b>Holding</b>	<b>Investment in management shares</b>	<b>Total cost US\$'000</b>	<b>Fair value US\$'000</b>
10	The Argo Fund Ltd	-	-
100	Argo Distressed Credit Fund Ltd	-	-
1	Argo Special Situations Fund LP	-	-
		-	-
<b>Holding</b>	<b>Investment in ordinary shares</b>	<b>Total cost US\$'000</b>	<b>Fair value US\$'000</b>
31,636	The Argo Fund Ltd*	7,159	10,644
10,899,021	Argo Real Estate Opportunities Fund	988	119
115	Argo Special Situations Fund LLP	115	32
1,262	Argo Distressed Credit Fund Limited*	2,000	4,156
		<b>10,262</b>	<b>14,951</b>

\*Classified as current in the consolidated statement of financial position

In January 2018, the Group invested a further US\$4 million in ADCF. In September 2018, the settlement from the leasing of a catalyst to an Indonesian Refinery in ADCF generated liquidity in that fund and the Group redeemed its investment of US\$8.3 million in October 2018. These proceeds were immediately reinvested in TAF.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**11. TRADE AND OTHER RECEIVABLES**

	<b>At 31 December 2018 US\$ '000</b>	<b>At 31 December 2017 US\$ '000</b>
Trade receivables – Gross	9,752	14,489
Less: provision for impairment of trade receivables	(9,188)	(8,264)
Trade receivables – Net	564	6,225
Other receivables	111	110
Prepayments and accrued income	82	107
	<u>757</u>	<u>6,442</u>

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\$0.6million 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 2018 total US\$nil (2017: US\$nil) after a bad debt provision of US\$8.9 million (€7.8 million) (2017: US\$8.2 million (€6.8 million)). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**11. TRADE AND OTHER RECEIVABLES (continued)**

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

	At 31 December 2018 US\$ '000	At 31 December 2017 US\$ '000
As at 1 January	10,992	8,626
Bad debt recovered	-	(577)
Provision charged during the year	1,350	1,687
Foreign exchange movement	(539)	1,256
As at 31 December	11,803	10,992

**12. LOANS AND ADVANCES RECEIVABLE**

	At 31 December 2018 US\$'000	At 31 December 2017 US\$'000
Deposits on leased premises – current	14	-
Deposits on leased premises - non-current (see below)	104	125
Other loans and advances receivable - current	-	-
Other loans and advances receivable – non-current	-	-
	118	125

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 2018 US\$'000	At 31 December 2017 US\$'000
Current:		
Lease expiring within one year	14	-
	At 31 December 2018 US\$'000	At 31 December 2017 US\$'000
Non-current:		
Lease expiring in second year after the reporting date	-	15
Lease expiring in fourth year after the reporting date	104	-
Lease expiring in fifth year after the reporting date	-	110
	104	125

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**13. CASH AND CASH EQUIVALENTS**

Included in cash and cash equivalents is a balance of US\$23,000 (€20,000) (2017: US\$24,000) 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.

	<b>31 December 2018 No.</b>	<b>31 December 2018 US\$'000</b>	<b>31 December 2017 No.</b>	<b>31 December 2017 US\$'000</b>
Issued and fully paid				
Ordinary shares of US\$0.01 each	47,032,878	470	48,032,878	470
	<b>47,032,878</b>	<b>470</b>	<b>47,032,878</b>	<b>470</b>

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 (31 December 2017: US\$nil).

During 2017, the Directors authorised the repurchase of 1,065,616 shares at a total cost of USD\$0.2 million.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**15. TRADE AND OTHER PAYABLES**

	At 31 December 2018 US\$ '000	At 31 December 2017 US\$ '000
Trade and other payables	15	4
Other creditors and accruals	165	2,093
	180	2,097

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 2018 US\$ '000	At 31 December 2017 US\$ '000
Operating lease liabilities:		
Within one year	223	252
In the second to fifth years inclusive	414	655
Present value of minimum lease payments	637	907

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

	Year ended 31 December 2018 US\$ '000	Year ended 31 December 2017 US\$ '000
(Loss)/profit on ordinary activities before taxation	(1,236)	4,735
Interest income	(194)	(200)
Depreciation	12	26
(Decrease)/increase in payables	(1,917)	414
Decrease/increase in receivables	5,863	(3,188)
Decrease/(increase) in fair value of current asset investments	600	(2,550)
Net foreign exchange loss	31	31
Income taxes paid	(47)	(201)
Net cash inflow/(outflow) from operating activities	3,136	(933)

**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 services.

At the reporting date the Company holds investments in The Argo Fund Limited, Argo Real Estate Opportunities Fund Limited ("AREOF") and Argo Special Situations Fund LP. These investments are reflected in the consolidated financial statements at a fair value of US\$18.2 million, US\$0.1 million, and US\$0.04 million 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 2018 total US\$nil (2017: US\$nil) after a bad debt provision of US\$8.9 million. (€7.8 million) (2017: US\$8.2 million (€6.8 million)). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows. 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.

At the year end, Argo Group was owed loans repayable on demand of US\$2.2 million (€1.9 million) (2017: US\$2.0 million, €1.7 million) by AREOF accruing interest at 10%. The company was also owed a further amount of US\$0.4 million (€0.4 million) (2017: US\$0.7 million, €0.6 million) for expenses it paid on behalf of AREOF Group entities. A full provision has been made in the consolidated financial statements against this balance at the current and prior year end.

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\$nil (2017: US\$nil).

**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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

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\$2.3 million, Sterling – US\$0.1 million and Euros - US\$1.6 million.

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 2018 the exposure would be a profit or loss to the Consolidated statement of comprehensive income of approximately US\$0.1 million (2017: US\$0.1 million).

(g) Interest rate risk

The interest rate profile of the Group at 31 December 2018 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
<b>Financial Assets</b>				
Financial assets at fair value through profit or loss	18,352	-	-	18,352
Loans and receivables	880	104	-	776
Cash and cash equivalents	4,005	41	2,256	1,708
	23,237	145	2,256	20,839
<b>Financial liabilities</b>				
Trade and other payables	180	-	-	180

\* Changes in the interest rate may cause movements.

The average interest rate at the year end was 1.05%. Any movement in interest rates would have an immaterial effect on the profit/(loss) for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

19. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

The interest rate profile of the Group at 31 December 2017 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
<b>Financial Assets</b>				
Financial assets at fair value through profit or loss	14,951	-	-	14,951
Loans and receivables	6,567	125	-	6,442
Cash and cash equivalents	5,031	265	2,098	2,668
	26,549	390	2,098	24,061
<b>Financial liabilities</b>				
Trade and other payables	2,097	-	-	2,097

\* Changes in the interest rate may cause movements.

The average interest rate at the year end was 1.09%. 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 2018 US\$ '000	At 31 December 2017 US\$ '000
<b>Financial Assets</b>		
Financial assets at fair value through profit or loss	18,352	14,951
Loans and receivables	880	6,567
Cash and cash equivalents	4,005	5,031
	23,237	26,549
<b>Financial Liabilities</b>		
Trade and other payables	180	2,097

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**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 2o).

	At 31 December 2018			
	Level 1	Level 2	Level 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets at fair value through profit or loss	-	18,193	159	18,352

	At 31 December 2017			
	Level 1	Level 2	Level 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets at fair value through profit or loss	-	14,800	151	14,951

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 2018	119	32	151
Total losses recognized in profit or loss	-	8	8
Purchases	-	-	-
Sales	-	-	-
Transfer to level 2	-	-	-
Balance as at 31 December 2018	119	40	159

**20. EVENTS AFTER THE REPORTING DATE**

The Board will make a separate announcement on 7 March 2019 regarding a return of capital to shareholders via a buyback of shares. The Board intends to use up to £2.5 million to acquire Ordinary Shares.

**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. The options are exercisable in at an exercise price of 24p per share within 10 years of the grant date.

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 (pence)	17.0
Weighted average option life at grant date (years)	10.0
Expected volatility (% p.a.)	15.0
Dividend yield (% p.a.)	10.0
Risk-free interest rate (% p.a.)	0.907

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 (2017: £nil).

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

	<b>Weighted average exercise price</b>	<b>No. of share options</b>
Outstanding at beginning of period	24.0p	4,340,000
Granted during the period	24.0p	-
Forfeited during the period	24.0p	-
Outstanding at end of period	24.0p	4,340,000
Exercisable at end of period	24.0p	4,340,000

The options outstanding at 31 December 2018 have an exercise price of 24p and a weighted average contractual life of 3 years. Outstanding share options are contingent upon the option holder remaining an employee of the Group.



ARGO