



ARGO

14

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

ARGO GROUP LIMITED

MANAGEMENT AND ADMINISTRATION

DIRECTORS

Michael Kloter
Kyriakos Rialas
Andreas Rialas
David Fisher
Kenneth Watterson

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Douglas
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The Royal Bank of Scotland
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London
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Ayia Paraskevi
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Cyprus

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IM99 1HN

NOMINATED ADVISER AND STOCKBROKER

Panmure Gordon (UK) Limited
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CHAIRMAN'S STATEMENT

Key highlights for the twelve months ended 31 December 2014

- Revenues US\$7.5 million (2013: US\$8.8 million)
- Operating loss US\$1.2 million (2013: operating profit US\$1.0 million)
- Loss before tax US\$2.0 million (2013: profit before tax US\$2.1 million)
- Net assets US\$26.0 million (2013: US\$28.5 million)

The Group and its objective

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

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

Business and operational review

This report sets out the results of Argo Group Limited for the year ended 31 December 2014.

For the year ended 31 December 2014 the Group generated revenues of US\$7.5 million (2013: US\$8.8 million) with management fees accounting for US\$6.7 million (2013: US\$6.9 million). The Group did not generate incentive fees during the year. In the prior year the Group derived incentive fees of US\$0.8 million as a result of the revaluation of an investment which has not yet been realised.

Core operating costs for the year fell to US\$4.6 million (2013: US\$5.4 million) as a direct result of cost cutting initiatives implemented in the first half of 2014. Total operating costs have increased to US\$8.7 million (2013: US\$7.7 million) after bad debt provision. During the year the Group provided against management fees of US\$3,414,873 (€2,569,505) (2013: US\$1,660,000 (€1,250,000)) due from Argo Real Estate Opportunities Fund Limited ("AREOF") and US\$650,000 (2013: US\$650,000) due from The Argo Fund Limited ("TAF").

Overall, the financial statements show an operating loss for the year of US\$1.2 million (2013: operating profit US\$1.0 million) and a loss before tax of US\$2.0 million (2013: profit before tax US\$2.1 million) reflecting the unrealised loss on current asset investments of US\$1.0 million (2013: unrealised profit US\$0.9 million).

At the year end, the Group had net assets of US\$26.0 million (2013: US\$28.5 million) and net current assets of US\$5.1 million (2013: US\$6.8 million) after a reclassification of investments from current assets to non-current assets. The Group did not pay a dividend during the year compared to the prior year when a dividend of 2.1 cents (1.3 pence) per share was paid on 26 April 2013.

Net assets include investments in TAF, AREOF and Argo Special Situations Fund LP ("ASSF") at fair values of US\$18.2 million (2013: US\$19.1 million), US\$0.2 million (2013: US\$0.2 million) and US\$0.07 million (2013: US\$0.09 million) respectively. Our continued investment in our funds supports the liquidity of those funds and demonstrates the commitment of the Group towards its fund investors. This close alignment results in a high correlation between the performance of the Company and the performance of its funds. It should be noted, however, that the Group does not intend to and may not be able to realise these investments in the immediate future due to assets held by these funds.

At the year end the Argo funds (excluding AREOF) owed the Group total management fees of US\$2,361,599 (31 December 2013: US\$1,861,967) after a bad debt provision of US\$1,300,000 (31 December 2013: US\$650,000). They are currently facing a short term liquidity issue which is being remedied and whilst a bad debt provision has been raised against these management fees the directors are confident that they are fully recoverable.

ARGO GROUP LIMITED

CHAIRMAN'S STATEMENT (continued)

Business and operational review (continued)

The Argo funds ended the period with Assets under Management ("AUM") at US\$177.4 million, 34.6% lower than at the beginning of the year. 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 a detailed review of the Group's cost basis and the implementation of a redundancy programme in the first quarter of the year. The Group has ensured that the operational framework remains intact and that it retains the capacity to manage additional fund inflows as and when they arise.

The number of employees of the Group at 31 December 2014 was 27 (2013: 38).

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 2014 total US\$ Nil (2013: US\$1,265,791 (€919,505)) after a bad debt provision of US\$5,554,234 (€4,569,505) (2013: US\$2,753,200 (€2,000,000)). 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. The AREOF management contract has a fixed term expiring on 31 July 2018.

During the prior year Argo Group advanced US\$1,215,500 (€1,000,000) to Bel Rom Trei ("Bel Rom"), an AREOF Group entity based in Romania that owns Sibiu Shopping City, in order to assist with its operational cash requirements. The loan is repayable on demand and accrues interest at 12%. The full amount of the loan and accrued interest remains outstanding at the year end. The Directors consider this loan to be fully recoverable on the basis that discussions with lending banks and potential purchasers of Sibiu have yielded offers in excess of the debt associated with the project banks.

Fund performance

The Argo Funds

Fund	Launch date	2014 Year total	2013 Year total	Since inception	Annualised performance	Sharpe ratio	Down months	AUM
		%	%	%	CAGR %			US\$m
The Argo Fund	Oct-00	-4.94	8.49	141.67	7.13	0.61	48 of 171	89.2
Argo Distressed Credit Fund	Oct-08	-4.64	12.64	65.98	8.98	0.75	32 of 75	24.6
Argo Special Situations Fund LP	Feb-12	-17.16	-23.30	-38.08	-15.16	-1.07	29 of 35	59.6
Argo Local Markets Fund	Nov-12	-6.19	-9.80	-14.07	-6.68	-1.64	18 of 26	4.0
Argo Real Estate Opportunities Fund*	Aug-06	-113.43	-46.58	-100.8	n/a	n/a	54 of 98	0
Total								177.4

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

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

Emerging markets had a difficult start to the year with currencies being particularly affected. A combination of factors including bullishness about the US economy, disappointing manufacturing data in China and ongoing tensions in Ukraine combined to undermine investor confidence in the earlier part of the period. Market volatility diminished as tensions eased in Ukraine following the Russian annexation of Crimea but heightened once again in response to actions by separatist forces in Eastern Ukraine. The gains in the first half of the year were reversed in the second half as Eastern European markets continued to feel the effects of the Ukraine crisis followed by the plunge in oil price.

Against this backdrop, fund performance was lacklustre with all of the Argo funds finishing behind at the year end. By comparison, the main hedge fund indices showed a small positive return of 1.3% for the same period.

During the year we progressed our discussions with a number of investors and despite difficult market conditions we believe that we are nearer to creating liquidity events for our investors.

In September 2014 ASSF agreed financing arrangements with a lender to allow settlement of the preferred interests' capital contributions and accrued returns.

In 2014 Argo Local Markets Fund ("ALMF") saw a continuation of the negative emerging market theme as currencies weakened in combination with tumbling commodity prices. The much stronger US economy coupled with a sharp US dollar rally challenged the decade long secular growth trend in emerging economies. The currency depreciation and inflation complicated the central bank's ability to ease monetary policy to encourage growth while private leverage caught up to developed market levels (in some instances) and has therefore been much less able to act as a growth agent this time around. Added to this is the exhaustion in the Chinese investment led economic model and the subsequent tacking to a consumer led economy has meant that there will likely be real differentiation in emerging markets economic performance going forward. The Russia/Ukraine conflict has also had a marked impact on the region's ability to keep growing and developing. At the end of the year ALMF showed a negative return of -6.19% (-0.98% on a gross fee basis). The performance has been hindered by the small size of the fund and its expense base and to that effect the management fee and performance fee has been reduced to 1.25% and 15%, respectively.

While macroeconomic conditions continue to improve, the effects on the two core markets where AREOF operates remain mixed with subdued growth in the Romanian market and recent political and economic upheavals impacting the Ukraine market.

AREOF's adjusted Net Asset Value was minus US\$6.7 million (minus €5.3 million) as at 30 September 2014, compared with US\$53.3 million (€39.4 million) a year earlier. The adjusted Net Asset Value per share at 30 September 2014 was minus US\$0.01 (minus €0.01) (30 September 2013: US\$0.09 (€0.06)). Although AREOF's balance sheet indicates the company is insolvent on a consolidated basis, the structural ring-fencing of the underlying SPV's limits the impact on the Group of negative equity at subsidiary level. On this basis a restatement of the Net Asset Value would be US\$0.05 (€0.04) (30 September 2013: US\$0.12 (€0.09)).

The reduced level of cash flow within AREOF, while being proactively managed, has resulted in breaches of terms and covenants on certain loans. This situation is being addressed by regular communication and negotiation with the lending banks with a view to restructuring the debt commitments to better align these to the current level of the AREOF Group's cash flow. While discussions with the relevant banks are ongoing to find an agreeable solution for all parties AREOF continues to enjoy the support of its banks. In the view of the directors discussions with the banks are continuing satisfactorily and they have therefore concluded that AREOF is a going concern.

AREOF'S ordinary shares on AIM were suspended on 30 August 2013 following breach of a loan covenant and the subsequent loan termination by the lending bank. On 3 March 2014 AREOF delisted from AIM to allow loan restructuring discussions to proceed outside of the extensive disclosure requirements that an AIM listing entails. The valuation of Argo Group Limited's investment in AREOF has been based on the equity price of 2.0 cents prevailing at the time of the suspension with a 25% discount rate applied to that price. In January 2015 the carrying value of this investment in the Argo funds was reduced from 2.0 cents to 1.0 cent.

CHAIRMAN'S STATEMENT (continued)

Awards

Argo Distressed Credit Fund ("ADCF") was ranked a top 5 hedge fund over three years in the category of Emerging Markets Global Funds by BarclayHedge at the end of March 2014.

Dividends

Argo is working towards the payment of a dividend which will ultimately depend on the success of the initiatives described above. The directors did not recommend a final dividend in respect of the year ended 31 December 2013 and do not recommend a final dividend for this year but intend to pay an interim dividend as soon as these initiatives are complete. Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

Outlook

As much-improved EM sentiment flows through into the second quarter of 2015 the Board remains optimistic about the Group's prospects. An increase in AUM is still required to ensure sustainable profits on a recurring management fee basis and the Group is well placed with capacity to absorb a significant increase in AUM with negligible impact on operational costs.

The top priority in the next six months will be to continue with our program to monetise certain of our investments. In the very near term our growth rate will be heavily influenced by the success of this program as well as events in Europe. Over the longer term the Board believes there is significant opportunity for growth in assets and profits and remains committed to ensuring the Group's investment management capabilities and resources are appropriate to meet its key objective of achieving a consistent positive investment performance in the emerging markets sector.



Michael Kloter
Non-Executive Chairman

Date: 29 June 2015

DIRECTORS' REPORT

The directors present their annual report and the audited accounts of the Group for the year ended 31 December 2014

Principal activity

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

Results, review of the business and future prospects

The Consolidated Statement of Comprehensive Income is set out on page 16. The Chairman's Statement set out on page 3 includes information about the Group's business and performance during the year and an indication of future prospects.

Dividends

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. A dividend was not paid during the year and the directors do not recommend a final dividend for this year but intend to pay an interim dividend as soon as these initiatives are complete. The final dividend of 2.1cents (1.3 pence) for the year ended 31 December 2012 totalling US\$1,348,288 (GBP876,570) was paid on 26 April 2013 to ordinary shareholders who were on the Register of Members on 2 April 2013.

Directors and their interests

The directors, who served throughout the year and held office at 31 December 2014 and to date, along with their beneficial interests (including those of connected parties) in the ordinary shares of the Company are as follows:

	31 December 2014	31 December 2013
	Ordinary shares	Ordinary shares
	No.	No.
Michael Kloter	1,000,000	1,000,000
Kyriakos Rialas	8,768,363	8,768,363
Andreas Rialas	15,638,146	15,638,146
David Fisher	-	-
Kenneth Watterson	88,141	88,141

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

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

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

Biographical details of the current directors are set out on page 13.

Going Concern

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

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

On 8 June 2015 the following interests in 3% or more of the Company's Ordinary share capital had been reported:

	No. of Ordinary shares	Percentage of issued capital
Lynchwood Nominees Limited	24,500,453	36.34%
HSBC Global Custody Nominee (UK) Limited	12,211,000	18.11%
Jim Nominees Limited	3,427,204	5.08%
Vidacos Nominees Limited	3,230,000	4.79%
The Bank of New York (Nominees) Limited	2,872,820	4.26%
Euroclear Nominees Limited	2,768,126	4.11%
SBS Nominees Limited	2,575,681	3.82%

Corporate governance statement

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

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

Regulatory Information

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

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

DIRECTORS' REPORT (continued)**Internal Control and risk management**

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

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

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

Risk management and control is one element of the Group's overall system of internal controls which provides an ongoing process for identifying, evaluating and managing the Group's significant risks. This control framework enables the Board, through the Audit Committee, the use of an independent compliance review service to oversee the regulated activities of the investment advisor 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 manager, Argo Cyprus, has an internal audit function, being a requirement of its license under the regulations of the Cyprus Securities and Exchange Commission. Similarly, the investment manager, Argo London, is reviewed by an external compliance consultant as part of its duty to satisfy its responsibilities under the FCA regulations.

Remuneration Committee

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

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

- To determine and agree with the Board of Directors the framework or broad policy for the remuneration of the chief executive and such other members of the executive management as it is designated to consider for purposes of compliance with the FCA remuneration code ("Code");
- To ensure the Group's remuneration policy for all staff is compliant with the Code;
- To review the framework or broad policy for remuneration to ensure it remains appropriate and relevant and in formulating proposals, be sensitive to the need for an appropriate balance between long and short-term elements of pay.

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

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

Donations

During the year the Group made charitable donations of US\$8,238 (2013: US\$17,989).

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 2014 was 21 (2013: 13).

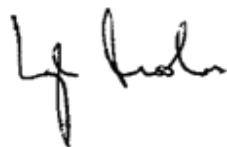
Statement of disclosure to auditor

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

Auditors

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

Signed on behalf of the Board



Kyriakos Rialas
Chief Executive Officer

Date: 29 June 2015

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Financial Reporting Standards; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company 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 over 28 years of professional investment and managerial experience in the financial services sector. He has overall responsibility for risk management, legal, regulatory and general management of the Argo business. Prior to joining Argo, he was General Manager of Emporiki Bank in Cyprus from 1999 to 2003 where he managed a portfolio of syndicated loans worth US\$1 billion. Kyriakos has also worked for the Treasury department of the Bank of Cyprus Group and London Forfaiting Cyprus where he was Finance Director, overseeing subsidiaries in India, Russia, Thailand and Hong Kong. Before that he worked for Capital Intelligence in bank analysis and rating for emerging markets. He has a degree in Engineering from the University of Cambridge and qualified as a Chartered Accountant with KPMG in London. He started his banking career in the fixed income division of SG Warburg & Co in London.

Andreas Rialas**Chief Investment Officer**

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

David Fisher**Non-Executive Director**

David Fisher is a member of the Investment Committee of Innova Capital, one of Central Europe's leading private equity firms; Chairman of EnerCap Partners, a renewable energy fund in Central Europe; and Chairman of Da Vinci CIS Private Sector Growth Fund Limited and Da Vinci PEF II Investment Committee. In June 2010 he was appointed to the Board of Argo Real Estate Opportunities Fund Limited. He has over 30 years of experience in business, finance and law. David has made and managed more than 30 private equity investments in Central & Eastern Europe in the last 20 years. He is a Chartered Director with the Institute of Directors and holds a Diploma in International Commercial Arbitration from the Chartered Institute of Arbitrators. David holds degrees from Davidson College (BA), Vanderbilt Law School (JD) and Harvard Business School (MBA). He is an American who has lived and worked in Europe for more than 15 years.

Kenneth Watterson**Non-Executive Director**

Kenneth has 25 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.

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

We have audited the financial statements of Argo Group Limited for the year ended 31 December 2014 which comprise the Group Statement of Comprehensive Income, the Group Statement of Financial Position, the Group Statement of Cash Flows and the Group Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the consolidated financial statements

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

In addition, we read all the financial and non-financial information in the consolidated financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the consolidated financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2014 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the EU.

ARGO GROUP LIMITED

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

Opinion on the consolidated financial statements (continued)

Emphasis of matter

In forming our opinion on the consolidated financial statements we also wish to draw your attention to the following matters:

Valuation of investments in The Argo Fund Limited (TAF), Argo Real Estate Opportunities Fund Limited (AREOF) and Argo Special Situations Fund LP (ASSF)

The valuations of the investments in TAF, AREOF and ASSF as disclosed in note 10 to the financial statements, are based on various assumptions and limiting conditions, many of which are difficult to assess given the composition of the associated investment portfolios. The underlying investment portfolios of each Fund are considered illiquid and therefore inherently require the judgement of the Directors to value. The latest available audit reports of each Fund were modified in respect of investment valuation. Refer to note 10 for further information.

The above matters indicate the existence of inherent uncertainties with regard to the carrying value of the investments in TAF, AREOF and ASSF in the financial statements of the Group.

Going concern

Without qualifying our opinion, we draw attention to Note 2(a) in the consolidated financial statements. As described, the Group's future going concern is linked to the liquidity of its underlying funds under management. These circumstances indicate the existence of material uncertainties that may cast doubt on the ability of the Group to continue as a going concern in the future.



KPMG Audit LLC

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

29 June 2015

ARGO GROUP LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2014

	Note	Year ended 31 December 2014 US\$'000	Year ended 31 December 2013 US\$'000
Management fees		6,660	6,920
Incentive fees		-	803
Other income		805	1,041
Revenue	2(e), 3	7,465	8,764
Legal and professional expenses		(387)	(261)
Management and incentive fees payable	2(f)	(116)	(308)
Operational expenses		(1,056)	(1,212)
Employee costs	4	(2,935)	(3,481)
Foreign exchange loss		24	(41)
Bad debts	11	(4,104)	(2,332)
Depreciation	9	(98)	(89)
Operating (loss)/profit	6	(1,207)	1,040
Interest income on cash and cash equivalents		218	115
Unrealised (loss)/gain on investments		(985)	942
(Loss)/profit on ordinary activities before taxation	3	(1,974)	2,097
Taxation	7	(39)	(115)
(Loss)/profit for the year after taxation attributable to members of the Company	8	(2,013)	1,982
Other comprehensive income			
Exchange differences on translation of foreign operations		(487)	147
Total comprehensive (loss)/income for the year		(2,500)	2,129
		Year ended 31 December 2014 US\$	Year ended 31 December 2013 US\$
Earnings per share (basic)	8	-0.03	0.03
Earnings per share (diluted)	8	-0.03	0.03

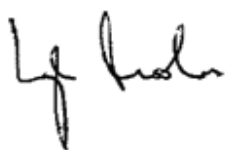
The directors consider that all results derive from continuing activities.

The notes on pages 20 to 41 form part of these consolidated financial statements.

ARGO GROUP LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014**

		At 31 December 2014 US\$'000	At 31 December 2013 US\$'000
	Note		
Assets			
Non-current assets			
Fixtures, fittings and equipment	9	107	177
Investments	10	18,435	19,420
Loans and advances receivable	13	2,357	2,107
Total non-current assets		20,899	21,704
Current assets			
Trade and other receivables	11	2,517	3,300
Cash and cash equivalents	12	2,821	3,726
Loans and advances receivable	13	132	217
Total current assets		5,470	7,243
Total assets	3	26,369	28,947
Equity and liabilities			
Equity			
Issued share capital	14	674	674
Share premium		30,878	30,878
Revenue reserve		(3,061)	(1,048)
Foreign currency translation reserve	2(d)	(2,496)	(2,009)
Total equity		25,995	28,495
Current liabilities			
Trade and other payables	15	321	388
Taxation payable	7	53	64
Total current liabilities	3	374	452
Total equity and liabilities		26,369	28,947

These consolidated financial statements were approved by the Board of Directors on 29 June 2015 and were signed on its behalf by:



Kyriakos Rialas
Chief Executive Officer



Michael Kloter
Non-Executive Chairman

The notes on pages 20 to 41 form part of these consolidated financial statements.

ARGO GROUP LIMITED
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED 31 DECEMBER 2014**

	Issued share capital 2013 US\$'000	Share premium 2013 US\$'000	Revenue reserve 2013 US\$'000	Foreign currency translation reserve 2013 US\$'000	Total 2013 US\$'000
As at 1 January 2013	674	30,878	(1,682)	(2,156)	27,714
Total comprehensive income					
Profit for the period after taxation	-	-	1,982	147	2,129
Transactions with owners recorded directly in equity					
Dividends to equity holders (Note 14)	-	-	(1,348)	-	(1,348)
As at 31 December 2013	674	30,878	(1,048)	(2,009)	28,495

	Issued share capital 2014 US\$'000	Share premium 2014 US\$'000	Revenue reserve 2014 US\$'000	Foreign currency translation reserve 2014 US\$'000	Total 2014 US\$'000
As at 1 January 2014	674	30,878	(1,048)	(2,009)	28,495
Total comprehensive income					
Loss for the period after taxation	-	-	(2,013)	(487)	(2,500)
As at 31 December 2014	674	30,878	(3,061)	(2,496)	25,995

The notes on pages 20 to 41 form part of these consolidated financial statements.

ARGO GROUP LIMITED**CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2014**

	Note	Year ended 31 December 2014 US\$'000	Year ended 31 December 2013 US\$'000
Net cash outflow from operating activities	17	(630)	(237)
Cash flows from investing activities			
Interest received on cash and cash equivalents		1	12
Purchase of fixtures, fittings and equipment	9	(38)	(46)
Net cash used in investing activities		(37)	(34)
Cash flows from financing activities			
Dividends paid	14	-	(1,348)
Net cash used in financing activities		-	(1,348)
Net decrease in cash and cash equivalents		(667)	(1,619)
Cash and cash equivalents at 1 January 2014 and 1 January 2013		3,726	5,139
Foreign exchange (loss)/gain on cash and cash equivalents		(238)	206
Cash and cash equivalents as at 31 December 2014 and 31 December 2013		2,821	3,726

The notes on pages 20 to 41 form part of these consolidated financial statements.

1. CORPORATE INFORMATION

The Company is domiciled in the Isle of Man under the Companies Act 2006. Its registered office is at 33-37 Athol Street, Douglas, Isle of Man, IM1 1LB and the principal place of business is at 10 Vasilissis Frederikis Street, 1066 Nicosia, Cyprus. The principal activity of the Company is that of a holding company and the principal activity of the wider Group is that of an investment management business. The functional currencies of the Group undertakings are US Dollars, Sterling, Euros and Romanian Lei. The presentational currency is US Dollars. The Group has 27 (2013: 38) employees.

Wholly owned subsidiaries

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

Country of incorporation

Cyprus
United Kingdom
Cayman Islands
Romania
Luxembourg

2. ACCOUNTING POLICIES**(a) Accounting convention**

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

Going concern

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

The Directors have carried out a rigorous assessment of all the factors affecting the business in deciding to adopt the going concern basis for the preparation of the accounts. They have reviewed and examined the Group's financial and other processes including the annual budgeting process and expect the Group to have sufficient cash resources available in the foreseeable future. This has included the preparation of forecast financial information focussed on cash flow requirements through to at least June 2016. 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 accounts. The key assumptions within the forecast financial information include the settlement of a portion of management fee arrears and/or loans advances from funds under management. These cash flows are linked to the liquidity of the major funds under management of the Group (AREOF, TAF, ASSF) which have significant liquidity challenges at present and therefore the timings of cash inflows to the Group are uncertain. The settlement of receivables may be dependent on the realisation of assets held or other restrictions which are exposed to economic and political risks associated with the particular assets held and the regions in which they are domiciled, outside of management control. As a result of current trading the Board have also considered forecast financial information under continued stressed trading conditions. Should such a scenario arise the Group would be required to take alternative mitigating actions during the forecast period.

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

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 Comprehensive Income. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed at least annually for impairment. Any impairment is recognised immediately in the Consolidated Statement of Comprehensive Income.

Impairment of intangible assets

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

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

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

(d) Foreign currency translation

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

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

(e) Revenue

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

Management and incentive fees receivable

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

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

The Group has provided AREOF with a notice of deferral in relation to the amounts due from the provision of investment management services, under which it will not demand payment of such amounts until the Group judges that AREOF is in a position to pay the outstanding liability. In November 2013 AREOF offered Argo Group Limited additional security for the continued support in the form of debentures and guarantees by underlying intermediate companies.

(f) Management and incentive fees payable

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

(g) Depreciation

Plant and equipment is initially recorded at cost and depreciated on a straight-line basis over the expected useful lives of the assets, after taking into account the assets' residual values, as follows:

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

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

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

All investments are classified as held at fair value through profit or loss. Investments are initially recognised at fair value. Transaction costs are expensed as incurred. After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Consolidated Statement of Comprehensive Income.

2. ACCOUNTING POLICIES (continued)

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

Investments held at fair value in managed mutual funds are valued at fair value of the net assets as provided by the administrators of those funds. Investments in the management shares of The Argo Fund Limited, Argo Distressed Credit Fund Limited, Argo Special Situations Fund LP and Argo Local Markets Fund are stated at fair value, being the recoverable amount.

(i) Trade date accounting

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

(j) Financial instruments

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

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

Trade and other receivables

Trade and other receivables are held at amortised cost and do not carry any interest. They are stated at their original invoice amount as reduced by appropriate allowances for estimated irrecoverable amounts. An estimate for doubtful debts is made when collection is no longer probable. Bad debts are written off when identified. The carrying value of trade receivables equates to their fair value.

Cash and cash equivalents

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

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

Trade payables

Trade payables are not interest bearing and are stated at amortised cost.

(k) Loans and borrowings

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

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

(l) Current taxation

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

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

2. ACCOUNTING POLICIES (continued)

(m) Deferred taxation

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

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

(n) Accounting estimates, assumptions and judgements

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

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

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

- Management and incentive fees
- Trade receivables
- Going concern

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

(o) Operating leases

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

2. ACCOUNTING POLICIES (continued)

(p) Financial instruments and fair value hierarchy

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

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

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

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

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

(q) Future changes in accounting policies

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

New/Revised International Financial Reporting Standards (IAS/IFRS)	EU Effective date (accounting periods commencing on or after)
IAS 19 Employee Benefits - Amendment resulting from the Post-Employment Benefits and Termination Benefits projects (as amended in June 2012)	1 January 2015
IAS 32 Financial Instruments Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities (December 2012)	1 January 2015
IFRS 7 Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting of financial assets and financial liabilities (December 2012)	1 January 2015
IFRS 9 Financial Instruments - Classification and measurement of financial assets (as amended in December 2012)	1 January 2016
IFRS 9 Financial Instruments – Accounting for financial liabilities and derecognition (as amended in December 2012)	1 January 2016
IFRS 10 Consolidated Financial Statements (May 2012)	1 January 2015
IFRS 11 Joint Arrangements (May 2012)	1 January 2015
IFRS 12 Disclosure of Interests in Other Entities (May 2012)	1 January 2015

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

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

(r) Dividends payable

Interim and final dividends are recognised when declared.

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

For the year ended 31 December 2014

3. SEGMENTAL ANALYSIS

The Group operates as a single asset management business.

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

	Argo Group Ltd 2014 US\$'000	Argo Capital Management (Cyprus) Limited 2014 US\$'000	Argo Capital Management Limited 2014 US\$'000	Argo Capital Management Property Limited 2014 US\$'000	Other 2014 US\$'000	Year ended 31 December 2014 US\$'000
Total revenues for reportable segments	250	3,199	2,397	3,455	-	9,301
Intersegment revenues	250	-	1,586	-	-	1,836
Total profit/(loss) for reportable segments	(1,211)	78	119	(998)	-	(2,012)
Intersegment profit/(loss)	(250)	1,845	(1,586)	-	-	9
Total assets for reportable segments	48,305	3,621	2,632	3,014	-	57,572
Total liabilities for reportable segments	75	1,707	169	103	-	2,054

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

	Year ended 31 December 2014 US\$'000
Revenues	
Total revenues for reportable segments	9,301
Elimination of intersegment revenues	(1,836)
Group revenues	7,465
Profit or loss	
Total loss for reportable segments	(2,012)
Elimination of total intersegment profits	9
Other unallocated amounts	29
Loss on ordinary activities before taxation	(1,974)
Assets	
Total assets for reportable segments	57,572
Elimination of intersegment receivables	(1,605)
Elimination of Company's cost of investments	(29,598)
Group assets	26,369
Liabilities	
Total liabilities for reportable segments	2,054
Elimination of intersegment payables	(1,680)
Group liabilities	374

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

For the year ended 31 December 2014

3. SEGMENTAL ANALYSIS (continued)

	Argo Group Ltd	Argo Capital Management (Cyprus) Limited	Argo Capital Management Limited	Argo Capital Management Property Limited	Other	Year ended 31 December 2013
	2013	2013	2013	2013	2013	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Total revenues for reportable segments	414	5,212	2,538	3,546	-	11,710
Intersegment revenues	408	-	2,538	-	-	2,946
Total profit for reportable segments	964	445	260	493	-	2,162
Intersegment profit/(loss)	408	(2,933)	2,539	-	-	14
Total assets for reportable segments	49,511	2,843	2,701	4,488	-	59,543
Total liabilities for reportable segments	69	975	193	164	-	1,401

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

	Year ended 31 December 2013 US\$'000
Revenues	
Total revenues for reportable segments	11,710
Elimination of intersegment revenues	(2,946)
Group revenues	8,764
Profit or loss	
Total profit for reportable segments	2,162
Elimination of total intersegment losses	(14)
Other unallocated amounts	(51)
Profit on ordinary activities before taxation	2,097
Assets	
Total assets for reportable segments	59,543
Elimination of intersegment receivables	(997)
Elimination of Company's cost of investments	(29,599)
Group assets	28,947
Liabilities	
Total liabilities for reportable segments	1,401
Elimination of intersegment payables	(949)
Group liabilities	452

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

For the year ended 31 December 2014

4. EMPLOYEE COSTS

	Year ended 31 December 2014 US\$'000	Year ended 31 December 2013 US\$'000
Wages and salaries	2,636	3,142
Social security costs	229	281
Other	70	58
	<u>2,935</u>	<u>3,481</u>

5. KEY MANAGEMENT PERSONNEL REMUNERATION

Included in employee costs are payments to the following:

	Year ended 31 December 2014 US\$'000	Year ended 31 December 2013 US\$'000
Directors and key management personnel	1,286	1,471

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

	Salaries US\$'00	Fees US\$'00	Benefit US\$'000	Cash bonus US\$'00	Year ended 31 December 2014 US\$'000	Year ended 31 December 2013 US\$'000
Executive Directors						
Kyriakos Rialas	240	-	-	-	240	239
Andreas Rialas	238	-	4	-	242	229
Non-Executive Directors						
Michael Kloter	-	84	-	-	84	83
David Fisher	-	58	-	-	58	55
Ken Watterson	-	59	-	-	59	55

6. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging:

	Year ended 31 December 2014 US\$'000	Year ended 31 December 2013 US\$'000
Auditors' remuneration	122	90
Depreciation	98	89
Directors' fees	1,079	1,185
Operating lease payments	243	230

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

For the year ended 31 December 2014

7. TAXATION

Taxation rates applicable to the parent company and the Cypriot, UK, Luxembourg and Romanian subsidiaries range from 0% to 21.5% (2013: 0% to 23.3%).

Income Statement

	Year ended 31 December 2014 US\$'000	Year ended 31 December 2013 US\$'000
Taxation charge for the year on Group companies	39	115
Tax on (loss)/profit on ordinary activities	39	115

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

	Year ended 31 December 2014 US\$'000	Year ended 31 December 2013 US\$'000
(Loss)/profit before tax	(1,974)	2,097
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Timing differences	2	(1)
Non-deductible expenses	14	68
Other adjustments	(50)	(108)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	73	156
Tax charge	39	115

Balance Sheet

	At 31 December 2014 US\$'000	At 31 December 2013 US\$'000
Corporation tax payable	53	64

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

For the year ended 31 December 2014

8. EARNINGS PER SHARE

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

	Year ended 31 December 2014 US\$'000	Year ended 31 December 2013 US\$'000
(Loss)/profit for the year after taxation attributable to members	(2,013)	1,982
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings	67,428,494	67,428,494
Effect of dilution (note 21)	4,090,000	4,715,000
Weighted average number of ordinary shares for diluted earnings per share	71,518,494	72,143,494
	Year ended 31 December 2014 US\$	Year ended 31 December 2013 US\$
Earnings per share (basic)	-0.03	0.03
Earnings per share (diluted)	-0.03	0.03

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

For the year ended 31 December 2014

9. FIXTURES, FITTINGS AND EQUIPMENT

	Fixtures, fittings & equipment US\$'000
Cost	
At 1 January 2013	372
Additions	46
Disposals	(20)
Foreign exchange movement	10
At 31 December 2013	408
Additions	38
Disposals	(161)
Foreign exchange movement	(31)
At 31 December 2014	254
Accumulated Depreciation	
At 1 January 2013	151
Depreciation charge for period	89
Disposals	(16)
Foreign exchange movement	7
At 31 December 2013	231
Depreciation charge for period	98
Disposals	(159)
Foreign exchange movement	(23)
At 31 December 2014	147
Net book value	
At 31 December 2013	177
At 31 December 2014	107

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

For the year ended 31 December 2014

10. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Holding	Investment in management shares	31 December 2014 Total cost US\$'000	31 December 2014 Fair value US\$'000
10	The Argo Fund Ltd	-	-
100	Argo Distressed Credit Fund Ltd	-	-
1	Argo Special Situations Fund LP	-	-
1	Argo Local Markets Fund	-	-
		-	-

Holding	Investment in ordinary shares	Total cost US\$'000	Fair value US\$'000
75,165	The Argo Fund Ltd	16,343	18,165
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	199
115	Argo Special Situations Fund LP	115	71
		17,446	18,435

Holding	Investment in management shares	31 December 2013 Total cost US\$'000	31 December 2013 Fair value US\$'000
10	The Argo Fund Ltd	-	-
100	Argo Distressed Credit Fund Ltd	-	-
1	Argo Special Situations Fund LP	-	-
1	Argo Local Markets Fund	-	-
		-	-

Holding	Investment in ordinary shares	Total cost US\$'000	Fair value US\$'000
75,165	The Argo Fund Ltd	16,343	19,109
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	225
115	Argo Special Situations Fund LP	115	86
		17,446	19,420

The Argo Fund Limited holds a concentrated portfolio of Level 2 and Level 3 assets that are valued based on inputs other than quoted prices in active markets. Inherently the assumptions backing these valuations are subject to additional risks that can have a positive or negative impact on valuation. The audit report in respect of The Argo Fund Limited for the year ended 30 June 2014 was modified in respect of investment valuations.

On 3 March 2014 Argo Real Estate Opportunities Fund Limited (“AREOF”) delisted from AIM as a result of default notices on its loans creating uncertainty. At the year end it is carried at a discount of the last quoted bid price on AIM from August 2013. This investment is classified as level 3 under IFRS fair value hierarchy reflecting the non-market observable inputs to their valuation. The audit report in respect of AREOF for the year ended 30 September 2014 was modified in respect of going concern and qualified in respect of investment property valuations.

The investments held by the Group have been made in support of the Group’s funds under management and in support of their liquidity profiles and as such they may not be realisable in the immediate future. The valuations are subject to uncertain events, for example, liquidity events or debt refinancing that may not be wholly within the Group’s control.

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

For the year ended 31 December 2014

11. TRADE AND OTHER RECEIVABLES

	At 31 December 2014 US\$ '000	At 31 December 2013 US\$ '000
Trade receivables	2,359	2,705
Other receivables	65	60
Prepayments and accrued income	93	535
	2,517	3,300

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

The Group has provided Argo Real Estate Opportunities Fund Limited (“AREOF”) with a notice of deferral in relation to the amounts due from the provision of investment management services, under which it will not demand payment of such amounts until the Group judges that AREOF is in a position to pay the outstanding liability. These amounts accrued or receivable at 31 December 2014 total US\$Nil (2013: US\$1,265,791, €919,505) after a bad debt provision of US\$5,554,234 (€4,569,505) (2013: US\$2,753,200, €2,000,000). 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.

At the year end The Argo Fund Limited, Argo Special Situations Fund LP, Argo Distressed Credit Fund Limited and Argo Local Markets Fund Limited owed the Group total management fees of US\$2,361,599 (2013: US\$1,861,967) after a bad debt provision of US\$1,300,000 (2013: US\$650,000). These Funds have a substantial asset base with few liabilities. They are currently facing liquidity issues which management continue to work to remedy and whilst a bad debt provision has been raised against these management fees the Directors are confident that they may be recovered in the future.

In the audited financial statements of AREOF at 30 September 2014 a material uncertainty surrounding the refinancing of bank debts was referred to in relation to the basis of preparation of the financial statements. In the view of the directors of AREOF, discussions with the banks are continuing satisfactorily and they have therefore concluded that it is appropriate to prepare those financial statements on a going concern basis.

12. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents is a balance of US\$79,000 (2013: US\$83,000) 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.

13. LOANS AND ADVANCES RECEIVABLE

	At 31 December 2014 US\$'000	At 31 December 2013 US\$'000
Deposits on leased premises - current	6	34
Deposits on leased premises - non-current	96	88
Other loans and advances receivable - current	126	183
Other loans and advances receivable – non-current (see below)	2,261	2,019
	2,489	2,324

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

For the year ended 31 December 2014

13. LOANS AND ADVANCES RECEIVABLE (continued)

The non-current other loans and advances receivable comprise:

	At 31 December 2014 US\$'000	At 31 December 2013 US\$'000
Loan to Bel Rom Trei (see note (a) below)	1,456	1,484
Loan to AREOF (see note (b) below)	552	535
Loan to The Argo Fund Limited (see note (c) below)	150	-
Loans to other AREOF Group entities (see note (d) below)	102	-
Other loans	1	-
	2,261	2,019

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 2014 US\$'000	At 31 December 2013 US\$'000
Current:		
Lease expiring within one year	6	34

	At 31 December 2014 US\$'000	At 31 December 2013 US\$'000
Non-current:		
Lease expiring in third year after balance sheet date	96	-
Lease expiring in fourth year after balance sheet date	-	88
	96	88

- (a) During the prior year Argo Group advanced US\$1,215,500 (€1,000,000) to Bel Rom Trei ("Bel Rom"), an AREOF Group entity based in Romania that owns Sibiu Shopping City, in order to assist with its operational cash requirements. Challenging trading conditions have impacted Bel Rom's cash flow and its ability to meet payments due to lending banks as and when they fall due. The situation is being remedied by way of discussions with the lending banks with a view to restructuring these loans. While these discussions are on-going to find an agreeable solution for both parties, Bel Rom continues to enjoy the support of its banks. The loan is repayable on demand and accrues interest at 12%. The full amount of the loan and accrued interest amounting to USD1,456,069 (€1,197,918) remains outstanding at the year end. The Directors consider this loan to be fully recoverable on the basis that conditional offers to buy the centre have been received that indicate a value in excess of the debt attached to the project. Notwithstanding its repayable on demand terms, the Directors have classified this amount as non-current within the financial statements as it is not their intention to demand repayment in the immediate future and it is unlikely that Bel Rom will repay the amount in the next 12 months even if it were demanded. Refer to notes 10 and 11 for further information regarding the financial position of AREOF.
- (b) On 21 November 2013 the Argo Group provided a loan of US\$472,781 (€388,960) to AREOF to enable the company to service interest payments under a bank loan agreement. The loan is repayable on demand and accrues interest at 10%. The full amount of the loan and accrued interest amounting to USD525,369 (€432,225) remains outstanding at the year end.

The Argo Group provided further loans of US\$26,543 (€21,837) to AREOF to assist with its operational cash requirements. These loans are repayable on demand and accrue interest at 7%. The full amount of these loans remain outstanding at the year end.

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

For the year ended 31 December 2014

13. LOANS AND ADVANCES RECEIVABLE (continued)

- (c) On 5 December 2014 the Argo Group provided a loan of USD150,000 to The Argo Fund Limited to assist with its operational cash requirements. The loan is repayable on demand and accrues interest at 5%. The full amount of this loan remains outstanding at the year end.
- (d) During the year the Argo Group provided total loans of USD101,856 (€83,798) to various AREOF Group entities to assist those entities with their operational cash requirements. The loans are repayable on demand and accrue interest at 7%. The full amount of these loans remains outstanding at the year end.

14. SHARE CAPITAL

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

	31 December 2014 No.	31 December 2014 US\$'000	31 December 2013 No.	31 December 2013 US\$'000
Issued and fully paid				
Ordinary shares of US\$0.01 each	67,428,494	674	67,428,494	674
	67,428,494	674	67,428,494	674

The directors do not recommend the payment of a final dividend for the year ended 31 December 2014 (31 December 2013: Nil). The final dividend of 2.1 cents (1.3 pence) for the year ended 31 December 2012 totalling US\$1,348,288 (GBP876,570) was paid on 26 April 2013 to ordinary shareholders who were on the Register of Members on 2 April 2013. Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

15. TRADE AND OTHER PAYABLES

	At 31 December 2014 US\$ '000	At 31 December 2013 US\$ '000
Trade and other payables	91	63
Other creditors and accruals	230	325
	321	388

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

	At 31 December 2014 US\$ '000	At 31 December 2013 US\$ '000
Operating lease liabilities:		
Within one year	234	179
In the second to fifth years inclusive	565	370
Present value of minimum lease payments	799	549

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

	Year ended 31 December 2014 US\$ '000	Year ended 31 December 2013 US\$ '000
(Loss)/profit on ordinary activities before taxation	(1,974)	2,097
Interest income	(218)	(115)
Depreciation	98	89
Loss on disposal of fixed assets	2	4
Decrease in payables	(67)	(79)
Decrease/(increase) in receivables	618	(1,080)
Decrease/(increase) in fair value of current asset Investments	985	(942)
Net foreign exchange (gain)/loss	(24)	41
Income taxes paid	(50)	(252)
Net cash outflow from operating activities	(630)	(237)

18. RELATED PARTY TRANSACTIONS

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

At the balance sheet 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 accounts at a fair value of US\$18,164,902, US\$198,716 and US\$71,000 respectively.

The Group has provided AREOF with a notice of deferral in relation to the amounts due from the provision of investment management services, under which it will not demand payment of such amounts until the Group judges that AREOF is in a position to pay the outstanding liability. These amounts accrued or receivable at 31 December 2014 total US\$Nil (2013: US\$1,265,791, €919,505) after a bad debt provision of US\$5,554,234 (€4,569,505) (2013: US\$2,753,200, €2,000,000). 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. The AREOF management contract has a fixed term expiring on 31 July 2018.

At the year end Argo Group was owed US\$1,456,069 (€1,197,918) including interest of US\$240,570 (€197,918) by Bel Rom Trei Srl, an AREOF Group entity based in Romania that owns Sibiu Shopping City. The loan is repayable on demand and accrues interest at 12%.

At the year end Argo Group was owed a total balance of US\$551,912 (€454,062) including interest of US\$52,589 (€43,265) by AREOF. This balance comprises various loans that are all repayable on demand and accrue interest at 7% and 10%. Of this balance US\$525,369 (€432,225) is secured by debentures and guarantees from underlying intermediate companies in the AREOF Group. At the year end the Argo Group was owed a further USD101,856 (€83,798) by various other AREOF Group entities. This balance comprises loans that are all repayable on demand and accrue interest at 7%.

At the year end the Argo Group was owed USD150,000 by The Argo Fund Limited. The loan is repayable on demand and accrues interest at 5%.

18. RELATED PARTY TRANSACTIONS (continued)

In the audited financial statements of AREOF at 30 September 2014 a material uncertainty surrounding the refinancing of bank debts was referred to in relation to the basis of preparation of the financial statements. In the view of the directors of AREOF, discussions with the banks are continuing satisfactorily and they have therefore concluded that it is appropriate to prepare those financial statements on a going concern basis.

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 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. Additionally 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 balance sheet.

At the reporting date, the financial assets past due but not impaired amounted to USD4,465,756 (2013:USD4,522,121).

19. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

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.

(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.

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 2014 the exposure would be a profit or loss to the Consolidated Statement of Comprehensive Income of approximately US\$40,000 (2013: US\$45,000).

19. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(g) Interest rate risk

The interest rate profile of the Group at 31 December 2014 is as follows:

	Total as per balance sheet US\$ '000	Variable interest rate instruments* US\$ '000	Fixed interest rate instruments US\$ '000	Instruments on which no interest is receivable US\$ '000
Financial Assets				
Financial assets at fair value through profit or loss	18,435	-	-	18,435
Loans and receivables	5,006	83	1,456	3,467
Cash and cash equivalents	2,821	160	2,011	650
	26,262	243	3,467	22,552
Financial liabilities				
Trade and other payables	321	-	-	321

* Changes in the interest rate may cause movements.

The average interest rate at the year end was 0.02%. Any movement in interest rates would have an immaterial effect on the profit/(loss) for the period.

The interest rate profile of the Group at 31 December 2013 is as follows:

	Total as per balance sheet US\$ '000	Variable interest rate instruments* US\$ '000	Fixed interest rate instruments US\$ '000	Instruments on which no interest is receivable US\$ '000
Financial Assets				
Financial assets at fair value through profit or loss	19,420	-	-	19,420
Loans and receivables	5,624	88	2,019	3,517
Cash and cash equivalents	3,726	107	1,489	2,130
	28,770	195	3,508	25,067
Financial liabilities				
Trade and other payables	388	-	-	388

* Changes in the interest rate may cause movements.

The average interest rate at the year end was 0.02%. Any movement in interest rates would have an immaterial effect on the profit/(loss) for the period.

19. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

(h) Fair value

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

	At 31 December 2014 US\$ '000	At 31 December 2013 US\$ '000
Financial Assets		
Financial assets at fair value through profit or loss	18,435	19,420
Loans and receivables	5,006	5,624
Cash and cash equivalents	2,821	3,726
	26,262	28,770
Financial Liabilities		
Trade and other payables	321	388

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.

Fair value hierarchy

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

	At 31 December 2014			Total US\$ '000
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	
Financial assets at fair value through profit or loss	-	-	18,435	18,435

	At 31 December 2013			Total US\$ '000
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	
Financial assets at fair value through profit or loss	-	19,195	225	19,420

20. EVENTS AFTER THE BALANCE SHEET DATE

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

21. SHARE-BASED INCENTIVE PLANS

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

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

The principal assumptions for valuing the options were:

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

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The total charge to employee costs in respect of this incentive plan is nil due to the differential in exercise price and share price.

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

	Weighted average exercise price	No. of share options
Outstanding at beginning of period	24.0p	4,715,000
Granted during the period	-	-
Forfeited during the period	24.0p	(625,000)
<u>Outstanding at end of period</u>	<u>24.0p</u>	<u>4,090,000</u>
<u>Exercisable at end of period</u>	<u>24.0p</u>	<u>3,067,500</u>

The options outstanding at 31 December 2014 have an exercise price of 24p and a weighted average contractual life of 10 years, with the third tranche of shares being exercisable on or after 1 May 2014. Outstanding share options are contingent upon the option holder remaining an employee of the Group. They expire after 10 years.

No share options were issued during the period.



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