

MANAGEMENT AND ADMINISTRATION

DIRECTORS

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Kyriakos Rialas
Andreas Rialas
David Fisher
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CHAIRMAN'S STATEMENT**Key highlights for the six month period ended 30 June 2016**

This report sets out the results of Argo Group Limited (the "Company") and its subsidiaries (collectively "the Group" or "Argo") covering the six month period ended 30 June 2016.

- Revenues US\$4.0 million (six months to 30 June 2015: US\$3.1 million)
- Operating profit US\$3.8 million (six months to 30 June 2015: profit US\$0.2 million)
- Profit before tax US\$4.9 million (six months to 30 June 2015: loss US\$4.2 million)
- Net assets US\$24.2 million (31 December 2015: US\$22.4 million)

The Group and its investment 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

For the six month period ended 30 June 2016 the Group generated revenues of US\$4.0 million (six months to 30 June 2015: US\$3.1 million) with management fees accounting for US\$2.0 million (six months to 30 June 2015: US\$2.8 million). The Group generated incentive fees of US\$1.7 million (six months to 30 June 2015: US\$Nil).

Total operating costs for the period, ignoring bad debt provisions, are US\$2.0 million compared to US\$1.7 million for the six months to 30 June 2015. During the period management fee arrears of US\$2.8 million were recovered from Argo Real Estate Opportunities Fund Limited ("AREOF") against which a provision had been raised in prior years. The Group has provided against management fees of US\$1,164,000 (€1,000,000) (six months to 30 June 2015: US\$1,117,000 (€1,000,000)) due from AREOF. In the Directors' view these amounts are fully recoverable however they have concluded that it would not be appropriate to continue to recognise income without provision from these investment management services as the timing of such receipts may be outside the control of the Company and AREOF.

Overall, the financial statements show an operating profit for the period of US\$3.8 million (six months to 30 June 2015: profit US\$0.2 million) and a profit before tax of US\$4.9 million (six months to 30 June 2015: loss US\$4.2 million) reflecting the net gain on investments of US\$1.1 million (six months to 30 June 2015: net loss US\$4.5 million). The outstanding performance of The Argo Fund Limited ("TAF") and Argo Distressed Credit Fund Limited ("ADCF") for the first six months contributed to substantial performance fees which will be realisable at the year end provided substantial losses do not occur in the last six months of the year.

At the period end, the Group had net assets of US\$24.2 million (31 December 2015: US\$22.4 million) and net current assets of US\$23.4 million (31 December 2015: US\$15.7 million) including cash reserves of US\$9.0 million (31 December 2015: US\$3.1 million).

Net assets include investments in TAF, AREOF, Argo Special Situations Fund LP and ADCF (together referred to as "the Argo funds") at fair values of US\$9.7 million (31 December 2015: US\$10.2 million), US\$0.1 million (31 December 2015: US\$0.1 million), US\$0.02 million (31 December 2015: US\$0.02 million) and US\$2.6 million (31 December 2015: US\$Nil) respectively.

ARGO GROUP LIMITED

CHAIRMAN'S STATEMENT (continued)

Business and operational review (continued)

At the period end the Argo funds (excluding AREOF) owed the Group total management and performance fees of US\$2,172,156 (31 December 2015: US\$819,451).

The Argo funds (excluding AREOF) ended the period with Assets under Management ("AUM") at US\$104.8 million, 12.2% higher than at the beginning of the period. The current level of AUM remains below that required to ensure sustainable profits on a recurring management fee basis in the absence of performance fees. This has necessitated an ongoing review of the Group's cost basis. Nevertheless, the Group has ensured that the operational framework remains intact and that it retains the capacity to manage additional fund inflows as and when they arise.

The number of employees of the Group at 30 June 2016 was 24 (30 June 2015: 24).

The Group has provided AREOF with a notice of deferral in relation to amounts due from the provision of investment management services, under which it will not demand payment of such amounts until the Group judges that AREOF is in a position to pay the outstanding liability. These amounts accrued or receivable at 30 June 2016 total US\$ Nil (31 December 2015: Nil) after a bad debt provision of US\$5,629,179 (€5,069,505) (31 December 2015: US\$7,164,702, €6,569,505). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows. During the six month period ended 30 June 2016 AREOF settled total fees of US\$2,776,000 (€2,500,000). 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.

Fund performance

Argo Funds

Fund	Launch date	30 June 2016 6 months	30 June 2015 6 months	2015 year total	Since inception	Annualised performance CAGR %	Sharpe ratio	Down months	AUM US\$m
The Argo Fund	Oct-00	41.90	-1.45	-17.42	183.20	7.72	0.60	57 of 89	60.0
Argo Distressed Credit Fund	Oct-08	33.36	-0.44	-9.71	99.85	10.07	0.75	42 of 93	35.8
Argo Special Situations Fund LP	Feb-12	-31.15	-16.18	-76.21	-89.86	-44.27	-0.79	47 of 53	9.0
Total									104.8

* NAV only officially measured once a year in September.

AREOF's adjusted Net Asset Value was minus US\$23.4 million (minus €20.9 million) as at 30 September 2015, compared with minus US\$6.7 million (minus €5.3 million) a year earlier. The adjusted Net Asset Value per share at 30 September 2015 was minus US\$0.03 (minus €0.03) (30 September 2014: minus US\$0.01 (minus €0.01)). Although AREOF's consolidated statement of financial position indicates the AREOF group is insolvent on a consolidated basis, the structural ring-fencing of the underlying 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\$0.01 (€0.01) (30 September 2014: US\$0.05 (€0.04)).

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

At the start of 2016 emerging markets were particularly affected by low oil prices but by March the markets were enjoying a stronger period as oil prices began to recover and the US Federal Reserve presented a more accommodating stance. At the beginning of the second quarter the uncertainty surrounding the "Brexit" referendum had cast a shadow over financial markets and permeated into a global issue but by the end of the period the outlook was more stable as central banks in developed countries indicated their willingness to take added measures to boost economic growth.

This backdrop has created an opportunity to reinvest in emerging markets at lower prices and we are now in a position to take advantage of the opportunity as a result of a liquidity event in AREOF (see below). In response to the prevailing attitudes towards credit funds we are relaunching TAF and ADCF as two distinct mandates with different liquidity profiles that will make them more attractive propositions to new investors.

During the reporting period the Argo funds generated a positive return from trades linked to the 2015 disposal of their stake in the Indonesian oil refinery, TPPI. In June 2016 the Argo funds further benefited from the sale by AREOF of one of its real estate assets in Sibiu, Romania. This also contributed to the strong performance of TAF and ADCF and provided much needed liquidity to the funds and allowed AREOF to repay US\$2,776,000 (€2,500,000) of management fee arrears.

TAF is the Group's flagship fund and has a 16 year track record. Going forward, TAF will focus on liquid bond securities, both sovereign and corporate, and will be the centre of the Group's marketing efforts. Following the declines experienced by emerging markets over the past two years, the Board believes they offer attractive investment opportunities. Furthermore, the economic fundamentals in emerging markets are robust. They are expected to deliver significantly stronger economic growth than developed markets in 2016/2017 while enjoying attractive risk profiles thanks to low levels of government indebtedness and high foreign exchange reserves. The results of the first half of 2016 for TAF and ADCF show a promising future.

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

The majority of AREOF's debt facilities were in default at some point during the year. This situation has been addressed through asset disposal and renegotiation with lending banks with a view to restructuring 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 forbearance of its banks and support of its shareholders. In view of this, the directors of AREOF have concluded that AREOF is a going concern.

The prevailing equity price of the AREOF shares at the time of their suspension in 2013 (see note 8 to the financial statements) was 2.0 euro cents. The valuation of Argo Group Limited's investment in AREOF and that of the Argo funds was 1.0 euro cent per share as at 30 June 2016.

CHAIRMAN'S STATEMENT (continued)

Dividends and share purchase programme

The Group did not pay a dividend during the current or prior period. The Directors intend to restart dividend payments as soon as the Group's performance provides a consistent track record of profitability.

However during the period the Directors undertook a share purchase programme and authorised the repurchase of 18,955,000 shares at a total cost of US\$2.8 million which provided substantial market liquidity for share trading. The Directors firmly believe that a return of excess cash to shareholders through buy-backs will send a positive message to investors and for this reason they propose to undertake a further share buy-back programme over the next 12 months.

Outlook

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

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

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



Michael Kloter
Non-Executive Chairman
Date: 7 September 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Directors are responsible for preparing the condensed consolidated interim financial statements in accordance with applicable law and regulations. In addition, the Directors have elected to prepare the condensed consolidated interim financial statements in accordance with International Financial Reporting Standards (IAS 34: Interim Financial Statements).

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

In preparing condensed consolidated interim 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 condensed consolidated interim financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to allow for the preparation of consolidated financial statements. 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 30 years of professional investment and managerial experience in the financial services sector. He has overall responsibility for risk management, legal, regulatory and general management of the Argo business. Prior to joining Argo, he was General Manager of Emporiki Bank in Cyprus from 1999 to 2003 where he managed a portfolio of syndicated loans worth US\$1 billion. Kyriakos has also worked for the Treasury department of the Bank of Cyprus Group and London Forfaiting Cyprus where he was Finance Director, overseeing subsidiaries in India, Russia, Thailand and Hong Kong. Before that he worked for Capital Intelligence in bank analysis and rating for emerging markets. He has a degree in Engineering from the University of Cambridge and qualified as a Chartered Accountant with KPMG in London. He started his banking career in the fixed income division of SG Warburg & Co in London.

Andreas Rialas**Chief Investment Officer**

Prior to founding Argo, Andreas worked for Deutsche Bank for three years where he was involved in emerging markets proprietary trading and trade finance specialist products. Before that, he was at London Forfaiting (Asia) Ltd as Head of Secondary Debt Trading in emerging markets. At Argo, Andreas has built up a formidable distressed/activist reputation in emerging markets and spearheaded some of the firm's most lucrative distressed debt/restructuring investments. These include investments in Argentina, India, Russia, Brazil, Bulgaria, Romania, Thailand and the Dominican Republic. Andreas studied law at the University of London, graduating in 1991 and subsequently trained to be an English Barrister specialising in banking law qualifying in 1993.

David Fisher**Non-Executive Director**

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

Kenneth Watterson**Non-Executive Director**

Kenneth has more than 30 years of experience within the financial services industry. His specific areas of expertise include compliance and risk management, operations and change management. Kenneth holds a Master's degree from the University of St. Andrews and a Master's degree from London Guildhall University in Financial Regulation & Compliance Management, specialising in Corporate Governance. Kenneth 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 and as a consultant providing corporate governance, operations, risk & compliance services. He is a Chartered Fellow of the Institute of Directors and a Chartered Fellow of the Chartered Institute for Securities & Investment. He has board experience with UK, Isle of Man and Channel Islands companies within a wide range of financial services including Investment Managers, Banks, Insurance & Pensions, Independent Financial Advisors and Fiduciary Service companies.

ARGO GROUP LIMITED
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016

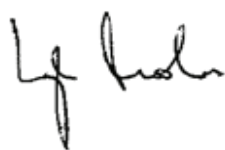
	Note	Six months ended 30 June 2016 US\$'000	Six months ended 30 June 2015 US\$'000
Management fees		2,042	2,771
Performance fees		1,669	-
Other income		327	318
Revenue		4,038	3,089
Legal and professional expenses		(375)	(162)
Management and incentive fees payable		(34)	(34)
Operational expenses		(481)	(454)
Employee costs		(1,114)	(1,123)
Bad debt provision	9	1,712	(1,121)
Foreign exchange gain		39	59
Depreciation	7	(21)	(23)
Operating profit		3,764	231
Interest income on cash and cash equivalents		44	88
Realised and unrealised gains/(losses) on investments	8	1,094	(4,482)
Profit/(loss) on ordinary activities before taxation		4,902	(4,163)
Taxation	5	(97)	(31)
Profit/(loss) for the period after taxation attributable to members of the Company	6	4,805	(4,194)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		(215)	(261)
Total comprehensive income for the period		4,590	(4,455)
		Six months Ended 30 June 2016 US\$	Six months Ended 30 June 2015 US\$
Earnings per share (basic)	6	0.08	-0.06
Earnings per share (diluted)	6	0.07	-0.06

The Directors consider that all results derive from continuing activities.
The notes on pages 13 to 25 form part of these condensed financial statements.

ARGO GROUP LIMITED**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016**

	Note	30 June 2016 US\$'000	At 31 December 2015 US\$'000
Assets			
Non-current assets			
Fixtures, fittings and equipment	7	42	64
Financial assets at fair value through profit or loss	8	136	4,896
Loans and advances receivable	10	683	1,783
Total non-current assets		861	6,743
Current assets			
Financial assets at fair value through profit or loss	8	12,283	11,896
Trade and other receivables	9	2,350	966
Loans and advances receivable	10	87	-
Cash and cash equivalents		8,983	3,126
Total current assets		23,703	15,988
Total assets		24,564	22,731
Equity and liabilities			
Equity			
Issued share capital	11	485	674
Share premium		28,277	30,878
Revenue reserve		(1,434)	(6,239)
Foreign currency translation reserve		(3,091)	(2,876)
Total equity		24,237	22,437
Current liabilities			
Trade and other payables		265	236
Taxation payable	5	62	58
Total current liabilities		327	294
Total equity and liabilities		24,564	22,731

These interim consolidated financial statements were approved by the Board of Directors on 7 September 2016 and signed on its behalf by:



Kyriakos Rialas
Chief Executive Officer



Michael Kloter
Non-Executive Chairman

The notes on pages 13 to 25 form part of these condensed financial statements.

ARGO GROUP LIMITED**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	Issued share capital 2015 US\$'000	Share premium 2015 US\$'000	Revenue reserve 2015 US\$'000	Foreign currency translation reserve 2015 US\$'000	Total 2015 US\$'000
As at 1 January 2015	674	30,878	(3,061)	(2,496)	25,995
Total comprehensive income					
Loss for the period after taxation	-	-	(4,194)	-	(4,194)
Other comprehensive income	-	-	-	(261)	(261)
As at 30 June 2015	674	30,878	(7,255)	(2,757)	21,540

	Issued share capital 2016 US\$'000	Share premium 2016 US\$'000	Revenue reserve 2016 US\$'000	Foreign currency translation reserve 2016 US\$'000	Total 2016 US\$'000
As at 1 January 2016	674	30,878	(6,239)	(2,876)	22,437
Total comprehensive income					
Profit for the period after taxation	-	-	4,805	-	4,805
Other comprehensive income	-	-	-	(215)	(215)
Transactions with owners recorded directly in equity					
Purchase of own shares (note 11)	(189)	(2,601)	-	-	(2,790)
As at 30 June 2016	485	28,277	(1,434)	(3,091)	24,237

The notes on pages 13 to 25 form part of these condensed financial statements.

ARGO GROUP LIMITED**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2016**

	Note	Six months ended 30 June 2016 US\$'000	Six months ended 30 June 2015 US\$'000
Net cash inflow/(outflow) from operating activities	12	3,311	(1,737)
Cash flows used in investing activities			
Interest received on cash and cash equivalents		23	1
Purchase of fixtures, fittings and equipment	7	(2)	(4)
Purchase of current asset investments	8	(2,000)	-
Proceeds from disposal of investments	8	7,467	
Net cash generated from/(used in) investing activities		5,488	(3)
Cash flows from financing activities			
Repurchase of own shares		(2,795)	-
Net cash used in financing activities		(2,795)	-
Net increase/(decrease) in cash and cash equivalents		6,004	(1,740)
Cash and cash equivalents at 1 January 2016 and 1 January 2015		3,126	2,821
Foreign exchange loss on cash and cash equivalents		(147)	(112)
Cash and cash equivalents as at 30 June 2016 and 30 June 2015		8,983	969

The notes on pages 13 to 25 form part of these condensed financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. CORPORATE INFORMATION

The Company is domiciled in the Isle of Man under the Companies Act 2006. Its registered office is at 33-37 Athol Street, Douglas, Isle of Man, IM1 1LB. The condensed consolidated interim financial statements of the Group as at and for the six months ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements of the Group as at and for the year ended 31 December 2015 are available upon request from the Company's registered office or at www.argogrouplimited.com.

The principal activity of the Company is that of a holding company and the principal activity of the wider Group is that of an investment management business. The functional and presentational currency of the Group undertakings is US dollars. The Group has 24 employees.

Wholly owned subsidiaries	Country of incorporation
Argo Capital Management (Cyprus) Limited	Cyprus
Argo Capital Management Limited	United Kingdom
Argo Capital Management Property Limited	Cayman Islands
Argo Property Management Srl	Romania
North Asset Management Sarl	Luxembourg

2. ACCOUNTING POLICIES**(a) Basis of preparation**

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2015.

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2015.

These condensed consolidated interim financial statements were approved by the Board of Directors on 7 September 2016.

b) Financial instruments and fair value hierarchy

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

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

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

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

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

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016 (continued)

3. SEGMENTAL ANALYSIS

The Group operates as a single asset management business.

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

	Argo Group Ltd	Argo Capital Management (Cyprus) Ltd	Argo Capital Management Ltd	Argo Capital Management Property Ltd	Six months ended 30 June 2016
	2016	2016	2016	2016	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Total revenues for reportable segments	600	786	2,497	1,425	5,308
Intersegment revenues	600	570	100	-	1,270
Total profit/(loss) for reportable segments	1,470	(136)	1,063	2,622	5,019
Intersegment profit/(loss)	600	(128)	(499)	-	(27)
Total assets for reportable segments	14,899	1,213	3,934	5,090	25,136
Total liabilities for reportable segments	40	29	691	1,069	1,829

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

	Six months Ended 30 June 2016 US\$'000
Revenues	
Total revenues for reportable segments	5,308
Elimination of intersegment revenues	(1,270)
Group revenues	4,038
Profit or loss	
Total profit for reportable segments	5,019
Elimination of intersegment loss	27
Other unallocated amounts	(144)
Profit on ordinary activities before taxation	4,902
Assets	
Total assets for reportable segments	25,136
Elimination of intersegment receivables	(572)
Group assets	24,564
Liabilities	
Total liabilities for reportable segments	1,829
Elimination of intersegment payables	(1,502)
Group liabilities	327

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016 (continued)

3. SEGMENTAL ANALYSIS (continued)

	Argo Group Ltd	Argo Capital Management (Cyprus) Ltd	Argo Capital Management Ltd	Argo Capital Management Property Ltd	Six months ended 30 June 2015 US\$'000
	2015 US\$'000	2015 US\$'000	2015 US\$'000	2015 US\$'000	
Total revenues for reportable segments	200	883	1,211	1,435	3,729
Intersegment revenues	200	-	440	-	640
Total profit/(loss) for reportable segments	(4,456)	29	248	(47)	(4,226)
Intersegment profit/(loss)	200	(641)	440	-	(1)
Total assets for reportable segments	43,874	3,162	3,025	2,689	52,750
Total liabilities for reportable segments	99	1,259	264	75	1,697

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

	Six months ended 30 June 2015 US\$'000
Revenues	
Total revenues for reportable segments	3,729
Elimination of intersegment revenues	(640)
Group revenues	3,089
Profit or loss	
Total loss for reportable segments	(4,226)
Elimination of intersegment loss	1
Other unallocated amounts	62
Loss on ordinary activities before taxation	(4,163)
Assets	
Total assets for reportable segments	52,750
Elimination of intersegment receivables	(1,180)
Elimination of Company's cost of investments	(29,598)
Group assets	21,972
Liabilities	
Total liabilities for reportable segments	1,697
Elimination of intersegment payables	(1,265)
Group liabilities	432

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016 (continued)

4. 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 are:

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

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

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

	Weighted average exercise price	No. of share options
Outstanding at beginning of period	24.0p	4,090,000
Granted during the period	-	750,000
Forfeited during the period	24.0p	-
Outstanding at end of period	24.0p	4,840,000
Exercisable at end of period	24.0p	4,840,000

The options outstanding at 30 June 2016 have an exercise price of 24p and a weighted average contractual life of 10 years, with all tranches of shares now being exercisable. 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.

ARGO GROUP LIMITED**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the six months ended 30 June 2016 (continued)

5. TAXATION

Taxation rates applicable to the parent company and the Cypriot, UK, Luxembourg, Cayman and Romanian subsidiaries range from 0% to 20% (2015: 0% to 22%).

Statement of profit or loss	Six months ended 30 June 2016 US\$'000	Six months ended 30 June 2015 US\$'000
Taxation charge for the period on Group companies	97	31

The charge for the period can be reconciled to the profit/(loss) shown on the Condensed Consolidated Statement of Comprehensive Income as follows:

	Six months ended 30 June 2016 US\$'000	Six months ended 30 June 2015 US\$'000
Profit/(loss) before tax	4,902	(4,163)
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Timing differences	2	2
Non-deductible expenses	6	3
Other adjustments	(171)	(57)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	260	83
Tax charge	97	31

Statement of financial position

	30 June 2016 US\$'000	31 December 2015 US\$'000
Corporation tax payable	62	58

ARGO GROUP LIMITED**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the six months ended 30 June 2016 (continued)

6. EARNINGS PER SHARE

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

	Six months ended 30 June 2016 US\$'000	Six months ended 30 June 2015 US\$'000
Net profit/(loss) for the period after taxation attributable to members	4,805	(4,194)
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings per share	62,509,327	67,428,494
Effect of dilution (Note 4)	4,840,000	4,090,000
Weighted average number of ordinary shares for diluted earnings per share	67,349,327	71,518,494
	Six months Ended 30 June 2016 US\$	Six months ended 30 June 2015 US\$
Earnings per share (basic)	0.08	-0.06
Earnings per share (diluted)	0.07	-0.06

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016 (continued)

7. FIXTURES, FITTINGS AND EQUIPMENT

	Fixtures, fittings & equipment US\$'000
Cost	
At 1 January 2015	254
Additions	8
Foreign exchange movement	(17)
At 31 December 2015	245
Additions	2
Foreign exchange movement	(13)
At 30 June 2016	234
Accumulated Depreciation	
At 1 January 2015	147
Depreciation charge for period	46
Foreign exchange movement	(12)
At 31 December 2015	181
Depreciation charge for period	21
Foreign exchange movement	(10)
At 30 June 2016	192
Net book value	
At 31 December 2015	64
At 30 June 2016	42

ARGO GROUP LIMITED**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the six months ended 30 June 2016 (continued)

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Holding	Investment in management shares	30 June 2016 Total cost US\$'000	30 June 2016 Fair value US\$'000
10	The Argo Fund Ltd	-	-
100	Argo Distressed Credit Fund Ltd	-	-
1	Argo Special Situations Fund LP	-	-
		-	-

Holding	Investment in ordinary shares	Total cost US\$'000	Fair value US\$'000
33,963	The Argo Fund Ltd*	7,583	9,702
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	119
115	Argo Special Situations Fund LP	115	17
1,291	Argo Distressed Credit Fund Limited*	2,000	2,581
		10,686	12,419

Holding	Investment in management shares	31 December 2015 Total cost US\$'000	31 December 2015 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
51,261	The Argo Fund Ltd*	11,583	10,230
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	119
115	Argo Special Situations Fund LP	115	17
2,117	Argo Local Markets Fund Limited*	1,700	1,666
40,272	Sudan Recovery Fund Limited	4,760	4,760
		19,146	16,792

*Classified as current in the Statement of Financial Position

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. The prevailing equity price of AREOF shares at the time of the suspension in August 2013 was 2.0 euro cents. The valuation of Argo Group Limited’s investment in AREOF and that of the Argo funds was 1.0 euro cent as at 30 June 2016. This investment is classified as level 3 under IFRS fair value hierarchy reflecting the non-market observable inputs to its valuation. The audit report in respect of AREOF for the year ended 30 September 2015 was modified in respect of going concern.

During the reporting period the Group redeemed its entire interests in Argo Local Markets Fund Limited and Sudan Recovery Fund Limited for US\$1,587,702 and US\$ 1,879,262 respectively. The Group also redeemed part of its interest in The Argo Fund Limited for US\$4,000,000 subsequently investing US\$2,000,000 in the Argo Distressed Credit Fund Limited.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016 (continued)

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2016 US\$ '000	At 31 December 2015 US\$ '000
Trade receivables	2,181	829
Other receivables	81	66
Prepayments and accrued income	88	71
	<hr/> 2,350	<hr/> 966

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. All trade receivable balances are recoverable within one year from the reporting date except as disclosed below.

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 30 June 2016 total US\$ Nil (31 December 2015: Nil) after a bad debt provision of US\$5,629,179 (€5,069,505) (31 December 2015: US\$7,164,702, €6,569,505). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows. During the six month period ended 30 June 2016 AREOF settled total fees of US\$2,776,000 (€2,500,000). 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 without provision from these investment management services as the timing of such receipts may be outside the control of the Company and AREOF.

At 30 June 2016 Argo Special Situations Fund LP owed the Group total management fees of US\$451,207 (31 December 2015: US\$689,310). This fund is currently facing liquidity issues due to the debt financing arrangement put in place in 2014 however the management continue to work to remedy this and the Directors are confident that these fees may be recovered in the future. During the six month period ended 30 June 2016 the Group received US\$350,000 as part settlement of these management fees.

In the audited consolidated financial statements of AREOF at 30 September 2015 a material uncertainty surrounding the refinancing of bank debts was referred to in relation to the basis of preparation of the financial statements. In the view of the directors of AREOF, discussions with the banks are continuing satisfactorily and they have therefore concluded that it is appropriate to prepare those consolidated financial statements on a going concern basis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016 (continued)

10. LOANS AND ADVANCES RECEIVABLE

	At 30 June 2016	At 31 December 2015
	US\$'000	US\$'000
Deposits on leased premises - non-current (see below)	83	90
Other loans and advances receivable - current	87	-
Other loans and advances receivable – non-current (see below)	600	1,693
	<hr/> 770	<hr/> 1,783

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 30 June 2016	At 31 December 2015
	US\$'000	US\$'000
Non-current:		
Lease expiring in second year after reporting date	71	78
Lease expiring in fourth year after reporting date	12	12
	<hr/> 83	<hr/> 90

The non-current other loans and advances receivable comprise:

	At 30 June 2016	At 31 December 2015
	US\$'000	US\$'000
Loan to Bel Rom Trei (see note (a) below)	-	1,437
Loan to AREOF (see note (b) below)	377	24
Loan to The Argo Fund Limited	-	22
Loans to other AREOF Group entities (see note (c) below)	216	208
Other loans	7	2
	<hr/> 600	<hr/> 1,693

- (a) In 2013 Argo Group advanced US\$1,109,400 (€1,000,000) to Bel Rom Trei (“Bel Rom”), an AREOF group entity based in Romania that owns Sibiu Shopping City, in order to assist with its operational cash requirements. The full amount of the loan and accrued interest amounting to US\$1,490,031 (€1,337,611) was repaid during the six month period ended 30 June 2016.
- (b) On 21 November 2013 the Argo Group provided a loan of US\$431,901 (€388,960) to AREOF at a rate of 10% per annum to enable the company to service interest payments under a bank loan agreement. A bad debt provision has been raised against the full amount of the loan and accrued interest amounting to US\$544,550 (€490,408).

The Argo Group has provided further loans totalling US\$742,191 (€668,400) to AREOF to assist with its operational cash requirements. These loans are repayable on demand and accrue interest at 7%-10%. A bad debt provision of US\$365,278 (€328,961) has been raised against these debts.

- (c) At 30 June 2016 the Argo Group was owed USD308,864 (€278,156) by various AREOF group entities being loans provided to assist those entities with their operational cash requirements. The loans are repayable on demand, accrue interest at 7% and remain fully outstanding at 30 June 2016. A bad debt provision of US\$92,759 (€83,537) has been raised against these debts.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016 (continued)

11. SHARE CAPITAL

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

	30 June 2016 No.	30 June 2016 US\$'000	31 December 2015 No.	31 December 2015 US\$'000
Issued and fully paid				
Ordinary shares of US\$0.01 each	48,473,494	485	67,428,494	674
	48,473,494	485	67,428,494	674

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2015 and do not recommend an interim dividend in respect of the current period.

During the period the Directors authorised the repurchase of 18,955,000 shares at a total cost of US\$2.8 million.

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

	Six months ended 30 June 2016 US\$'000	Six months ended 30 June 2015 US\$'000
Profit/(loss) on ordinary activities before taxation	4,902	(4,163)
Interest income	(44)	(88)
Depreciation	21	23
Realised and unrealised (gains)/losses on investments	(1,094)	4,482
Net foreign exchange gain	(39)	(59)
Increase in payables	29	40
Increase in receivables, loans and advances	(371)	(1,959)
Income taxes paid	(93)	(13)
Net cash inflow/(outflow) from operating activities	3,311	(1,737)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016 (continued)

13. 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 2b).

	At 30 June 2016			Total US\$ '000
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	
Financial assets at fair value through profit or loss	-	12,283	136	12,419

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

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

	Unlisted closed ended investment fund Real Estate US\$ '000	Listed open ended investment fund Emerging Markets US\$ '000	Total US\$ '000
Balance as at 1 January 2016	119	4,777	4,896
Total loss recognized in profit or loss	-	(2,881)	(2,881)
Sales	-	(1,879)	(1,879)
Balance as at 30 June 2016	119	17	136

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016 (continued)

14. RELATED PARTY TRANSACTIONS

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

At the reporting date the Company holds investments in The Argo Fund Limited, Argo Real Estate Opportunities Fund Limited ("AREOF"), Argo Special Situations Fund LP and Argo Distressed Credit Fund Limited. These investments are reflected in the accounts at a fair value of US\$9,702,625, US\$118,865, US\$16,849 and US\$2,580,941 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 30 June 2016 total US\$Nil (31 December 2015: Nil) after a bad debt provision of US\$5,629,179 (€5,069,505) (31 December 2015: US\$7,164,702, €6,569,505). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows. During the period AREOF settled total fees of US\$2,776,000 (€2,500,000). 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.

On 21 November 2013 the Argo Group provided a loan of US\$431,901 (€388,960) to AREOF at a rate of 10% per annum to enable the company to service interest payments under a bank loan agreement. A bad debt provision has been raised against the full amount of the loan and accrued interest amounting to US\$544,550 (€490,408).

At the period end the Argo Group was owed a further US\$742,191 (€668,400) by AREOF comprising loans repayable on demand and accruing interest at 7%-10%. A bad debt provision of US\$365,278 (€328,961) has been raised against these debts.

At the period end the Argo Group was owed a total balance of USD308,864 (€278,156) by other AREOF Group entities. This balance comprises various loans that are all unsecured, repayable on demand and accrue interest at 7%. A bad debt provision of US\$92,759 (€83,537) has been raised against these debts.

In the audited consolidated financial statements of AREOF at 30 September 2015 a material uncertainty surrounding the refinancing of bank debts was referred to in relation to the basis of preparation of the consolidated financial statements. In the view of the directors of AREOF, discussions with the banks are continuing satisfactorily and they have therefore concluded that it is appropriate to prepare those consolidated financial statements on a going concern basis.

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