



ARGO GROUP LIMITED
Unaudited Consolidated Interim
Report And Accounts
For the six months ended 30 June 2018

MANAGEMENT AND ADMINISTRATION

DIRECTORS

Michael Kloter
Kyriakos Rialas
Andreas Rialas
David Fisher
Kenneth Watterson

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CHAIRMAN'S STATEMENT**Key highlights for the six months ended 30 June 2018**

This report sets out the results of Argo Group Limited (the "Company") and its subsidiaries (collectively "the Group" or "Argo") covering the six months ended 30 June 2018.

- Revenues US\$2.2 million (six months to 30 June 2017: US\$2.3 million restated)
- Operating loss US\$0.6 million (six months to 30 June 2017: US\$0.7 million restated)
- Loss before tax US\$0.7 million (six months to 30 June 2017: profit US\$1.1 million restated)
- Net assets US\$23.8 million (31 December 2017: US\$24.7 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 months ended 30 June 2018 the Group generated revenues of US\$2.2 million (six months to 30 June 2017: US\$2.3 million restated) with management fees accounting for US\$2.1 million (six months to 30 June 2017: US\$2.1 million). Under IFRS 15, which became effective from 1 January 2018, performance fees for the Argo Funds can only be recognised at the crystallisation date, when performance fees become due and payable, which is currently 31 December. Thus, performance fees can be recognised at year end but not at the interim date. Revenue for the comparative period has been restated to be in line with the new standard. The impact of the restatement is set out under Note 15.

Total operating costs for the period, ignoring bad debt provisions, are US\$2.1 million compared to US\$1.9 million for the six months to 30 June 2017. The Group has provided against management fees of US\$0.6 million (€0.5 million) (six months to 30 June 2017: US\$0.8 million (€0.8 million)) 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 loss for the period of US\$0.6 million (six months to 30 June 2017: loss US\$0.7 million restated) and a loss before tax of US\$0.7 million (six months to 30 June 2017: profit US\$1.1 million restated) reflecting the net loss on investments of US\$0.2 million (six months to 30 June 2017: net gain US\$1.7 million).

At the period end, the Group had net assets of US\$23.9 million (31 December 2017: US\$24.7 million) and net current assets of US\$23.4 million (31 December 2017: US\$24.2 million) including cash reserves of US\$4.3 million (31 December 2017: US\$5.0 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\$10.4 million (31 December 2017: US\$10.6 million), US\$0.1 million (31 December 2017: US\$0.1 million), US\$0.03 million (31 December 2017: US\$0.03 million) and US\$8.1 million (31 December 2017: US\$4.2 million) respectively.

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\$0.4 million (31 December 2017: US\$6.2 million).

The Argo funds (excluding AREOF) ended the period with Assets under Management ("AUM") at US\$148.6 million. The Group invested a further \$4m in ADCF in February 2018. 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 average number of permanent employees of the Group for the six months to 30 June 2018 was 20 (30 June 2017: 23).

The Group has provided AREOF with a notice of deferral in relation to amounts due from the provision of investment management services, under which it will not demand payment of such amounts until the Group judges that AREOF is in a position to pay the outstanding liability. These amounts accrued or receivable at 30 June 2018 total US\$ Nil (31 December 2017: US\$ Nil) after a bad debt provision of US\$8.5 million (€7.3 million) (31 December 2017: US\$8.2 million, €6.8 million). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows. In November 2013 AREOF offered Argo Group Limited additional security for the continued support in the form of debentures and guarantees by underlying intermediate companies. The AREOF management contract expires on the later of its termination or the sale of all assets in the Portfolio. The life of the fund is due to expire on 30 June 2034.

Fund performance
The Argo Funds

Fund	Launch date	30 June 2018 6 months	30 June 2017 6 months	2017 year total	Since inception	Annualised performance CAGR %	Sharpe ratio	Down months	AUM US\$m
The Argo Fund	Oct-00	-1.95	4.67	10.70	229.90	7.76	0.49	64 of 213	66.0
Argo Distressed Credit Fund	Oct-08	-0.10	51.00	65.60	228.96	15.05	0.63	55 of 117	56.3
Argo Special Situations Fund LP	Feb-12	-1.91	-12.03	115.45	-76.68	-5.44	-0.09	59 of 83	26.3
Total									148.6

* NAV only officially measured once a year in September.

AREOF's adjusted NAV at 30 September 2017* was US\$0.7 million (€0.6 million), compared with minus US\$36.4 million (minus €31.9 million) a year earlier. The Adjusted NAV per share at 30 September 2017 was US\$0.001 (€0.001) (2016: minus US\$0.06 (minus €0.05)). The improvement in NAV follows the AREOF Group restructuring that completed in March 2017.

The main shareholders in AREOF are:

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

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

Developments in the US continued to dominate the headlines and investor sentiment, as the world's biggest economy entered its ninth year of expansion and expenditure by consumers, businesses and government all gained momentum. Against this backdrop the Federal Reserve lifted its 2018 GDP guidance as it raised its target range for the federal funds rate in June by 25 basis points, the second rate increase this year. Faster growth has helped drive the US unemployment rate to an 18-year low and lift earnings. One of the larger investor concerns is therefore that the economy could bump up against capacity restraints and overheat, and with inflation levels rising, one of the Federal Reserve's tasks is to raise interest rates just enough to keep prices from increasing faster, but not so much as to smother growth and tip the economy into a recession. Political developments in the EU and elections in key emerging markets such as Turkey and Mexico also sparked apprehension at times in the first half of 2018, though these concerns appeared to be mostly shrugged off by markets before period-end. More worrying though was the emergence of trade tensions between the US and China which taken together with the ongoing renegotiation of the North America Free Trade Agreement has given rise to fears of a global tariff war and the impact that would have on world trade volumes and hence emerging market economies, particularly those which enjoy export-led growth. Nevertheless, the IMF recently updated its World Economic Outlook and against global expansion of 3.9% this year and next, it projects growth rates of 4.9% for 2018 and 5.1% for 2019 for emerging and developing countries.

Against this background, it is not surprising that after posting reasonable gains in the previous two years, emerging markets faltered in the first half of 2018; for example, the JP Morgan EMBI+ emerging market bond index fell by around 6% in that period compared with rises of 9.6% and 8.3% respectively in 2016 and 2017. TAF is the Group's flagship fund and has an 18 year track record. TAF's focus is on liquid bond securities, both sovereign and corporate, but the long/short strategy pursued by TAF allows it to adjust more quickly to a dynamic macroeconomic environment. Whilst the first quarter started positively, the overall decline of 1.95% in the period under review is disappointing; however, the Board believes it compares favourably with its peers and long-only funds dedicated to emerging market foreign exchange and bonds. The performance of ADCF, which concentrates on less liquid distressed positions, was largely unchanged as it awaits a realisation from its biggest position which comprises a petrochemicals asset in Asia. The ASSF declined by 1.9% principally due to the cost of debt funding.

As mentioned previously, the Group's marketing efforts have been bolstered and for the time being are concentrated on TAF. Whilst the recent risk sell-off may deter some investors, others may identify a more attractive entry level and the Board believes emerging markets continue to offer attractive investment opportunities.

Dividends

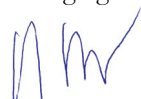
The Group did not pay a dividend during the current or prior period. The Directors intend to restart dividend payments as soon as the Group's performance provides a consistent track record of profitability.

Outlook

The Board remains optimistic about the Group's prospects based on the transactions in the pipeline and the Group's initiatives to increase AUM. 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 TAF which has a 18-year track record as well as identifying acquisitions that are earnings enhancing.

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: 31 July 2018

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

Andreas Rialas**Chief Investment Officer**

Andreas is the Founder and CIO of Argo Capital Management. Prior to founding Argo in 2000, Andreas worked for Deutsche Bank for three years in the emerging markets proprietary trading division, trading in emerging markets loans and trade finance specialist products. Before that, he was at London Forfaiting (Asia) Ltd as Head of Secondary Debt Trading in emerging markets. At Argo, Andreas built up a formidable distressed/activist reputation in emerging markets and spearheaded some of the firm's most successful distressed debt/restructuring investments across global emerging markets. Andreas studied Law at the University of London, graduating in 1991, and subsequently qualified to be an English Barrister specializing in banking law in 1993.

David Fisher**Non-Executive Director**

David Andrew Fisher has over 30 years of experience in business, finance and law. He is currently (a) Board Member at Innova Capital, a PE firm in Central Europe, (b) Chairman of the 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. He has board experience within a number of UK, Isle of Man and Channel Islands companies. Kenneth has worked with Coutts and Close Bros international private banks and as the Chief Operating Officer and director of a US\$1.6 billion hedge fund group. He is a Chartered Fellow of the Institute of Directors and a retired Chartered Fellow of the Chartered Institute for Securities and Investments.

ARGO GROUP LIMITED
**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

	Note	Six months ended 30 June 2018 US\$'000	Six months ended 30 June 2017 Restated US\$'000
Management fees		2,115	2,138
Other income		125	122
Revenue		2,240	2,260
Legal and professional expenses		(177)	(126)
Management and incentive fees payable		(35)	(33)
Operational expenses		(559)	(532)
Employee costs		(1,347)	(1,228)
Bad debt provision	9, 10	(692)	(1,032)
Foreign exchange gain/(loss)		1	(7)
Depreciation	7	(6)	(15)
Operating loss		(575)	(713)
Interest income		99	88
Realised and unrealised gains/(losses) on investments	8	(238)	1,728
(Loss)/profit on ordinary activities before taxation		(714)	1,103
Taxation	5	(11)	(130)
(Loss)/profit for the period after taxation attributable to members of the Company	6	(725)	973
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		(98)	202
Total comprehensive income for the period		(823)	1,175
		Six months Ended 30 June 2018 US\$	Six months Ended 30 June 2017 Restated US\$
Earnings per share (basic)	6	(0.02)	0.02
Earnings per share (diluted)	6	(0.01)	0.02

The Directors consider that all results derive from continuing activities.
The notes on pages 12 to 22 form part of these condensed financial statements.

ARGO GROUP LIMITED**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

	Note	30 June 2018 US\$'000	31 December 2017 US\$'000
Assets			
Non-current assets			
Land, fixtures, fittings and equipment	7	219	227
Financial assets at fair value through profit or loss	8	150	151
Loans and advances receivable	10	123	125
Total non-current assets		492	503
Current assets			
Financial assets at fair value through profit or loss	8	18,563	14,800
Trade and other receivables	9	647	6,442
Loans and advances receivable	10	6	-
Cash and cash equivalents		4,315	5,023
Total current assets		23,531	26,273
Total assets		24,023	26,776
Equity and liabilities			
Equity			
Issued share capital	11	470	470
Share premium		28,022	28,022
Revenue reserve		(1,852)	(1,127)
Foreign currency translation reserve		(2,803)	(2,705)
Total equity		23,837	24,660
Current liabilities			
Trade and other payables		154	2,097
Taxation payable	5	32	19
Total current liabilities		186	2,116
Total equity and liabilities		24,023	26,776

These interim consolidated financial statements were approved by the Board of Directors on 31 July 2018 and signed on its behalf by:



Kyriakos Rialas
Chief Executive Officer



Michael Kloter
Non-Executive Chairman

The notes on pages 12 to 22 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 2018**

	Issued share capital 2017 US\$'000	Share premium 2017 US\$'000	Revenue reserve 2017 US\$'000	Foreign currency translation reserve 2017 US\$'000	Total 2017 US\$'000
			Restated	Restated	Restated
As at 1 January 2017	481	28,211	(5,668)	(2,955)	20,069
Total comprehensive income					
Profit for the period after taxation	-	-	973	-	973
Other comprehensive income	-	-	-	202	202
Transaction with owners recorded directly in equity					
Purchase of own shares	(11)	(189)	-	-	(200)
As at 30 June 2017	470	28,022	(4,695)	(2,753)	21,044

	Issued share capital 2018 US\$'000	Share premium 2018 US\$'000	Revenue reserve 2018 US\$'000	Foreign currency translation reserve 2018 US\$'000	Total 2018 US\$'000
As at 1 January 2018	470	28,022	(1,127)	(2,705)	24,660
Total comprehensive income					
Profit for the period after taxation	-	-	(725)	-	(725)
Other comprehensive income	-	-	-	(98)	(98)
As at 30 June 2018	470	28,022	(1,852)	(2,803)	23,837

The notes on pages 12 to 22 form part of these condensed financial statements.

ARGO GROUP LIMITED**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

	Note	Six months ended 30 June 2018 US\$'000	Six months ended 30 June 2017 US\$'000
Net cash inflow/(outflow) from operating activities	12	3,365	(366)
Cash flows used in investing activities			
Interest received on cash and cash equivalents		11	14
Purchase of fixtures, fittings and equipment	7	(1)	(2)
Purchase of current asset investments	8	(4,000)	-
Net cash generated (used in)/from investing activities		(3,990)	12
Cash flows from financing activities			
Repurchase of own shares		-	(200)
Net cash used in financing activities		-	(200)
Net decrease in cash and cash equivalents		(625)	(554)
Cash and cash equivalents at 1 January 2018 and 1 January 2017		5,031	6,126
Foreign exchange loss on cash and cash equivalents		(91)	(170)
Cash and cash equivalents as at 30 June 2018 and 30 June 2017		4,315	5,742

The notes on pages 12 to 22 form part of these condensed financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. CORPORATE INFORMATION

The Company is domiciled in the Isle of Man under the Companies Act 2006. Its registered office is at 33-37 Athol Street, Douglas, Isle of Man, IM1 1LB. The condensed consolidated interim financial statements of the Group as at and for the six months ended 30 June 2018 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 2017 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.

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

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 2017.

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 2017.

These condensed consolidated interim financial statements were approved by the Board of Directors on 31 July 2018.

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 2018 (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 2018
	2018	2018	2018	2018	2018
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Total revenues for reportable segments	-	377	1,510	730	2,617
Intersegment revenues	-	377	-	-	377
Total profit/(loss) for reportable segments	(419)	141	(115)	(321)	(714)
Intersegment profit/(loss)	-	377	(377)	-	-
Total assets for reportable segments	20,127	1,440	1,467	2,222	25,256
Total liabilities for reportable segments	6	32	392	989	1,419

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

	Six months Ended 30 June 2018 US\$'000
Revenues	
Total revenues for reportable segments	2,617
Elimination of intersegment revenues	(377)
Group revenues	2,240
Profit or loss	
Total loss for reportable segments	(714)
Elimination of intersegment loss	-
Other unallocated amounts	-
Profit on ordinary activities before taxation	(714)
Assets	
Total assets for reportable segments	25,256
Elimination of intersegment receivables	(1,233)
Group assets	24,023
Liabilities	
Total liabilities for reportable segments	1,419
Elimination of intersegment payables	(1,233)
Group liabilities	186

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018 (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 2017 US\$'000
	2017 US\$'000	2017 US\$'000	2017 US\$'000	2017 US\$'000	2017 US\$'000
Total revenues for reportable segments	-	337	1,347	913	2,597
Intersegment revenues	-	337	-	-	337
Total profit/(loss) for reportable segments	1,592	126	(135)	(480)	1,103
Intersegment profit/(loss)	-	337	(337)	-	-
Total assets for reportable segments	17,071	1,123	1,638	2,448	22,280
Total liabilities for reportable segments	9	136	103	989	1,237

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

	Six months ended 30 June 2017 Restated US\$'000
Revenues	
Total revenues for reportable segments	2,597
Elimination of intersegment revenues	(337)
Group revenues	2,260
Profit or loss	
Total profit for reportable segments	1,103
Elimination of intersegment loss	-
Other unallocated amounts	-
Profit on ordinary activities before taxation	1,103
Assets	
Total assets for reportable segments	22,280
Elimination of intersegment receivables	(960)
Group assets	21,320
Liabilities	
Total liabilities for reportable segments	1,237
Elimination of intersegment payables	(960)
Group liabilities	277

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018 (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 at 24p per share within 10 years of the grant date.

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

The principal assumptions for valuing the options are:

Exercise price (pence)	24.0
Weighted average share price at grant date (pence)	17.0
Weighted average option life (years)	10.0
Expected volatility (% p.a.)	15.0
Dividend yield (% p.a.)	10.0
Risk-free interest rate (% p.a.)	0.907

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The total charge to employee costs in respect of this incentive plan is £nil (30 June 2017: £nil)

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	4,340,000
Granted during the period	-	-
Forfeited during the period	-	-
Outstanding at end of period	24.0p	4,340,000
Exercisable at end of period	24.0p	4,340,000

The options outstanding at 30 June 2018 have an exercise price of 24p and a weighted average contractual life of 3 years. Outstanding share options are contingent upon the option holder remaining an employee of the Group.

No share options were issued during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018 (continued)

5. TAXATION

Taxation rates applicable to the parent company and the Cypriot, UK, Luxembourg, Cayman and Romanian subsidiaries range from 0% to 19% (2017: 0% to 19.25%).

Consolidated statement of profit or loss	Six months ended 30 June 2018 US\$'000	Six months Ended 30 June 2017 Restated US\$'000
Taxation charge for the period on Group companies	11	130

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

	Six months ended 30 June 2018 US\$'000	Six months Ended 30 June 2017 Restated US\$'000
(Loss)/profit before tax	(714)	1,103
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Timing differences	-	-
Non-deductible expenses	-	5
Other adjustments	22	(5)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(11)	130
Tax charge	11	130

Consolidated statement of financial position

	30 June 2018 US\$'000	31 December 2017 US\$'000
Corporation tax payable	32	19

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018 (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 2018 US\$'000	Six months ended 30 June 2017 Restated US\$'000
Net (loss)/profit for the period after taxation attributable to members	(725)	973
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings per share	47,032,878	47,582,353
Effect of dilution (Note 4)	4,340,000	4,540,000
Weighted average number of ordinary shares for diluted earnings per share	51,372,878	52,122,353
	Six months ended 30 June 2018 US\$	Six months ended 30 June 2017 Restated US\$
Earnings per share (basic)	(0.02)	0.02
Earnings per share (diluted)	(0.01)	0.02

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018 (continued)

7. LAND, FIXTURES, FITTINGS AND EQUIPMENT

	Land, fixtures, fittings & equipment
	US\$'000
Cost	
At 1 January 2017	250
Additions	197
Disposals	-
Foreign exchange movement	15
At 31 December 2017	462
Additions	1
Foreign exchange movement	(7)
At 30 June 2018	456
Accumulated Depreciation	
At 1 January 2017	200
Depreciation charge for period	26
Disposals	-
Foreign exchange movement	9
At 31 December 2017	235
Depreciation charge for period	6
Foreign exchange movement	(4)
At 30 June 2018	237
Net book value	
At 31 December 2017	227
At 30 June 2018	219

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018 (continued)

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Holding	Investment in management shares	30 June 2018 Total cost US\$'000	30 June 2018 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
31,636	The Argo Fund Ltd*	7,159	10,437
30,056,500	Argo Real Estate Opportunities Fund Ltd	988	119
115	Argo Special Situations Fund LP	115	31
2,470	Argo Distressed Credit Fund Limited*	6,000	8,126
		14,262	18,713

Holding	Investment in management shares	31 December 2017 Total cost US\$'000	31 December 2017 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
31,636	The Argo Fund Ltd*	7,159	10,644
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	119
115	Argo Special Situations Fund LP	115	32
1,262	Argo Distressed Credit Fund Ltd*	2,000	4,156
		10,262	14,951

*Classified as current in the consolidated statement of Financial Position

Note that some of the Argo funds listed above may have investments in each other.

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2018 US\$ '000	At 31 December 2017 US\$ '000
Trade receivables – Gross	8,970	14,489
Less: provision for impairment of trade receivables	(8,535)	(8,264)
Trade receivables - Net	435	6,225
Other receivables	121	110
Prepayments and accrued income	91	107
	647	6,442

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018 (continued)

9. TRADE AND OTHER RECEIVABLES (continued)

A provision for impairment has been raised for all balances owed by the AREOF Group under trade and other receivables. These balances include all management fees and other loans and advances made by the investment manager to the AREOF Group. These amounted to US\$11.1 million (€9.5 million) (31 December 2017: US\$8.5 million, €8.1 million).

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

	At 30 June 2018 US\$ '000	At 31 December 2017 US\$ '000
Opening balance	10,992	8,626
Bad debt recovered	-	(577)
Charged during the period	692	1,687
Foreign exchange movement	(306)	1,256
Closing balance	11,378	10,992

10. LOANS AND ADVANCES RECEIVABLE

	At 30 June 2018 US\$'000	At 31 December 2017 US\$'000
Other loans and advances receivable – current	6	-
Deposits on leased premises - non-current (see below)	123	125
Other loans and advances receivable – non-current (see below)	-	-
	129	125

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

	At 30 June 2018 US\$'000	At 31 December 2017 US\$'000
Non-current:		
Lease expiring in second year after the reporting date	15	15
Lease expiring in fifth year after reporting date	108	110
	123	125

11. SHARE CAPITAL

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

	30 June 2018 No.	30 June 2018 US\$'000	31 December 2017 No.	31 December 2017 US\$'000
Issued and fully paid				
Ordinary shares of US\$0.01 each	47,032,878	470	47,032,878	470
	47,032,878	470	47,032,878	470

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2017 and do not recommend an interim dividend in respect of the current period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018 (continued)

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

	Six months ended 30 June 2018	Six months ended 30 June 2017 Restated
	US\$'000	US\$'000
(Loss)/profit on ordinary activities before taxation	(714)	1,103
Interest income	(99)	(88)
Depreciation	6	15
Realised and unrealised loss/(gain)	238	(1,729)
Net foreign exchange (gain)/loss	(1)	7
Decrease in payables	(1,943)	(1,538)
Decrease in receivables, loans and advances	5,878	1,864
Net cash inflow/(outflow) from operating activities	3,365	(366)

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 2018			
	Level 1	Level 2	Level 3	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets at fair value through profit or loss	-	18,563	150	18,713

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

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

	Unlisted closed ended investment fund Real Estate	Listed open ended investment fund Emerging Markets	Total
	US\$ '000	US\$ '000	US\$ '000
Balance as at 1 January 2018	119	32	151
Total loss recognized in profit or loss	-	(1)	(1)
Balance as at 30 June 2018	119	31	150

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018 (continued)

14. RELATED PARTY TRANSACTIONS

Most Group revenues derive from funds or entities in which one of the Company's directors, Kyriakos Rialas, has 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 fair value of US\$10.4 million, US\$0.1 million, US\$0.03 million and US\$8.1 million 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 2018 total US\$ Nil (31 December 2017: US\$ Nil) after a bad debt provision of US\$8.5 million (€7.3 million) (31 December 2017: US\$8.2 million, €6.8 million). In November 2013 AREOF offered Argo Group Limited additional security for the continued support in the form of debentures and guarantees by underlying intermediate companies. Argo Group Limited retains this additional security.

At the period end the Argo Group is also owed loans repayable on demand of US\$2.2 million (€1.8 million) (31 December 2017: US\$2.0 million, €1.7 million) by AREOF accruing interest at 10%. The Company is also owed a further amount of US\$0.4 million (€0.4 million) (31 December 2017: US\$0.7 million, €0.6 million) by other AREOF Group entities. A full provision has been made in the consolidated financial statements against these balances at the current and prior period end.

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

15. RESTATEMENT OF COMPARATIVE

IFRS 15: Revenue from contracts from customers became effective from 1 January 2018. The main impact of the new standard is that performance fees for the Argo Funds can only be recognised at the crystallisation date, when performance fees become due and payable, which is currently 31 December. Thus, performance fees can be recognised at year end but not at the interim date. Revenue for the comparative period has been restated to be in line with the new standard. The impact on profit after tax is set out below:

	30 June 2017 US\$'000
Profit after tax previously reported	4,766
Performance fees derecognised under IFRS 15	(4,045)
-	
Tax adjustment as a result of revenue adjustment	252
Restated profit after tax	<u>973</u>



ARGO