



ARGO GROUP LIMITED
Unaudited Consolidated Interim
Report And Accounts
For the six months ended 30 June 2019

MANAGEMENT AND ADMINISTRATION

DIRECTORS

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Kyriakos Rialas
Andreas Rialas
David Fisher
Kenneth Watterson

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CHAIRMAN'S STATEMENT**Key highlights for the six months ended 30 June 2019**

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 2019.

- Revenues US\$2.4 million (six months to 30 June 2018: US\$2.2 million)
- Operating loss US\$0.03 million (six months to 30 June 2018: loss US\$0.6 million)
- Profit before tax US\$1.5 million (six months to 30 June 2018: loss US\$0.7 million)
- Net assets US\$22.0 million (31 December 2018: US\$23.3 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 multi strategy investments in emerging markets.

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

Business and operational review

For the six months ended 30 June 2019 the Group generated revenues of US\$2.4 million (six months to 30 June 2018: US\$2.2 million) with management fees accounting for US\$2.0 million (six months to 30 June 2018: US\$2.1 million).

Total operating costs for the period, ignoring bad debt provisions, are US\$2.2 million compared to US\$2.1 million for the six months to 30 June 2018. The Group has provided against management fees of US\$0.3 million (€0.2 million) (six months to 30 June 2018: US\$0.6 million (€0.5 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\$0.03 million (six months to 30 June 2018: loss US\$0.6 million) and a profit before tax of US\$1.5 million (six months to 30 June 2018: loss US\$0.7 million) reflecting the net profit on investments of US\$1.4 million (six months to 30 June 2018: net loss US\$0.2 million).

At the period end, the Group had net assets of US\$22.0 million (31 December 2018: US\$23.3 million) and net current assets of US\$21.6 million (31 December 2018: US\$22.8 million) including cash reserves of US\$1.2 million (31 December 2018: US\$4.0 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\$19.0 million (31 December 2018: US\$18.2 million), US\$ nil (31 December 2018: US\$0.1 million), US\$0.04 million (31 December 2018: US\$0.04 million) and US\$0.8 million (31 December 2018: 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\$0.7 million (31 December 2018: US\$0.6 million).

The Argo Funds (excluding AREOF) ended the period with Assets under Management ("AUM") at US\$151.2 million. 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 2019 was 21 (30 June 2018: 20).

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 2019 total US\$ Nil (31 December 2018: US\$ Nil) after a bad debt provision of US\$9.1 million (€8.0 million) (31 December 2018: US\$8.9 million, €7.8 million). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows. AREOF paid US\$0.3 million (€0.3 million) towards management fees owed to the Group in June 2019. 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 2019 6 months	30 June 2018 6 months	2018 year total	Since inception	Annualised performance CAGR %	Sharpe ratio	Down months	AUM US\$m
The Argo Fund	Oct-00	4.25	-1.95	-5.65	230.94	7.36	0.47	70 of 225	92.8
Argo Distressed Credit Fund	Oct-08	5.18	-0.40	1.58	251.83	14.30	0.63	59 of 129	49.2
Argo Special Situations Fund LP	Feb-12	12.08	-1.91	26.8	-60.41	1.02	0.02	71 of 95	9.2
Total									151.2

* NAV only officially measured once a year in September.

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

The main shareholder in AREOF:

Entity	No of Shares	%
Argo Distressed Credit Fund	504,466,674	83%

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

Following the disappointing performance last year, markets recovered strongly in the first half of 2019. Safe-haven assets such as government bonds and gold were amongst the best performers, particularly in the second quarter, whilst risk assets also recorded year-to-date gains.

Both equities and bonds benefited from the dovish shift in tone from global monetary policymakers, notably the US Federal Reserve and the European Central Bank, that many investors hoped would lead to lower policy interest rates and the maintenance or even expansion of liquidity. The gains came about despite the escalation of the US-China trade dispute as well as rising trade tension between other countries. The US economy is now widely believed to be in the late-cycle phase but with low near-term risk of recession and with slowing growth elsewhere, including China, it appears that global economic momentum has peaked.

Historically, emerging markets have been vulnerable to swings -particularly strengthening-in the value of the US dollar and a weakening of world trade and growth. However, consumption remains resilient in several EM economies, despite a global manufacturing slowdown, and there appears scope for central banks in many EMs to lower interest rates, leading to further compression in local yields. As always, political events remain to the fore in EM investing. President Jokowi was re-elected in Indonesia and in South Africa, the re-election of the African National Congress Party was positive, despite a decrease in the size of its majority. Meanwhile, in Turkey the heterodox policies pursued by President Erdogan and the recent dismissal of the central bank governor have unsettled investors and the markets await the outcome of the elections in Argentina in the Autumn; the Macri administration has enjoyed considerable support from the IMF for its economic programme and is hoping to be elected for an additional term.

The Argo Fund, the group's flagship fund, deploys a long-short EM bond and forex strategy. Its Net Asset Value ("NAV") rose by 4.25% in the first six months of 2019 largely due to the performance of high beta sovereign and corporate bonds in the portfolio; perhaps unsurprisingly, the Fund's short positions were the biggest detractors. The AUM of this fund increased to US\$92.8 million at the end of June 2019, within sight of the targeted US\$100 million which we believe is important for raising additional external funding. The NAV of the Argo Distressed Credit Fund rose by 5.18% in the first half and we are planning to re-launch this fund to attract additional capital. The NAV of the Argo Special Situations Fund increased by 12.08%. The latter funds have now completed the realisation of their remaining exposure to the refinery in Indonesia.

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.

During the period, the Directors authorised the repurchase of 8,072,892 shares for a total cost of US\$2.7 million (£2.1 million) by way of a tender offer. The Board is currently evaluating the merits of a further tender offer later this year.

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 an 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: 30 July 2019



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

Kenneth Watterson**Non-Executive Director**

Kenneth has more than 30 years of experience within the financial services industry. His specific areas of expertise include compliance and risk management, operations and change management. Kenneth holds a Master's degree from the University of St. Andrews and a Master's degree from London Guildhall University in Financial Regulation & Compliance Management, specialising in Corporate Governance. He has board experience within a number of UK, Isle of Man and Channel Islands companies. Kenneth has worked with Coutts and Close Bros international private banks and as the Chief Operating Officer and director of a US\$1.6 billion hedge fund group. He is a Chartered Fellow of the Institute of Directors and recently retired as a Chartered Fellow of the Chartered Institute for Securities and Investments.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	Note	Six months ended 30 June 2019 US\$'000	Six months ended 30 June 2018 US\$'000
Management fees		2,013	2,115
Performance fees		300	-
Other income		122	125
Revenue		2,435	2,240
Legal and professional expenses		(303)	(177)
Management and incentive fees payable		(34)	(35)
Operational expenses		(520)	(559)
Employee costs		(1,291)	(1,347)
Bad debt provision	9, 10	(295)	(692)
Foreign exchange (loss)/gain		(20)	1
Depreciation	7	(5)	(6)
Operating loss		(33)	(575)
Interest income		90	99
Realised and unrealised gain/(losses) on investments	8	1,438	(238)
Profit/(loss) on ordinary activities before taxation		1,495	(714)
Taxation	5	(19)	(11)
Profit/(loss) for the period after taxation attributable to members of the Company	6	1,476	(725)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		(44)	(98)
Total comprehensive income for the period		1,432	(823)
		Six months Ended 30 June 2018 US\$	Six months Ended 30 June 2018 US\$
Earnings per share (basic)	6	0.03	(0.02)
Earnings per share (diluted)	6	0.03	(0.01)

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019**

	Note	30 June 2019 US\$'000	31 December 2018 US\$'000
Assets			
Non-current assets			
Land, fixtures, fittings and equipment	7	207	212
Financial assets at fair value through profit or loss	8	45	159
Loans and advances receivable	10	103	118
Total non-current assets		355	489
Current assets			
Financial assets at fair value through profit or loss	8	19,745	18,193
Trade and other receivables	9	887	757
Loans and advances receivable	10	15	-
Tax receivable	5	-	5
Cash and cash equivalents		1,168	4,005
Total current assets		21,815	22,960
Total assets		22,170	23,449
Equity and liabilities			
Equity			
Issued share capital	11	390	470
Share premium		25,353	28,022
Revenue reserve		(887)	(2,363)
Foreign currency translation reserve		(2,904)	(2,860)
Total equity		21,952	23,269
Current liabilities			
Trade and other payables		214	180
Tax payable		4	-
Total current liabilities		218	180
Total equity and liabilities		22,170	23,449

These interim consolidated financial statements were approved by the Board of Directors on 30 July 2019 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 2019**

	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					
Loss for the period after taxation	-	-	(725)	-	(725)
Other comprehensive income	-	-	-	(98)	(98)
As at 30 June 2018	470	28,022	(1,852)	(2,803)	21,044

	Issued share capital 2019 US\$'000	Share premium 2019 US\$'000	Revenue reserve 2019 US\$'000	Foreign currency translation reserve 2019 US\$'000	Total 2019 US\$'000
As at 1 January 2019	470	28,022	(2,363)	(2,860)	23,269
Total comprehensive income					
Profit for the period after taxation	-	-	1,476	-	1,476
Other comprehensive income	-	-	-	(44)	(44)
Transaction with owners recorded directly in equity					
Purchase of own shares	(80)	(2,669)	-	-	(2,749)
As at 30 June 2019	390	25,353	(887)	(2,904)	21,952

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 2019**

	Note	Six months ended 30 June 2019 US\$'000	Six months ended 30 June 2018 US\$'000
Net cash (outflow)/inflow from operating activities	12	(32)	3,365
Cash flows used in investing activities			
Interest received on cash and cash equivalents		8	11
Purchase of fixtures, fittings and equipment	7	(1)	(1)
Purchase of current asset investments	8	-	(4,000)
Net cash generated from/(used in) investing activities		7	(3,990)
Cash flows from financing activities			
Repurchase of own shares		(2,749)	-
Net cash used in financing activities		(2,749)	-
Net decrease in cash and cash equivalents		(2,774)	(625)
Cash and cash equivalents at 1 January 2019 and 1 January 2018		4,005	5,031
Foreign exchange loss on cash and cash equivalents		(63)	(91)
Cash and cash equivalents as at 30 June 2019 and 30 June 2018		1,168	4,315

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 2019

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 2019 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 2018 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 2018.

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 2018.

These condensed consolidated interim financial statements were approved by the Board of Directors on 30 July 2019.

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 2019 (continued)

3. SEGMENTAL ANALYSIS

The Group operates as a single asset management business.

The operating results of the companies 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 2019
	2019	2019	2019	2019	2019
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Total revenues for reportable segments	-	437	1,748	687	2,872
Intersegment revenues	-	437	-	-	437
Total profit/(loss) for reportable segments	1,114	135	157	70	1,476
Intersegment profit/(loss)	-	437	(437)	-	-
Total assets for reportable segments	20,034	346	1,100	690	22,170
Total liabilities for reportable segments	6	10	92	110	218

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

	Six months Ended 30 June 2019 US\$'000
Revenues	
Total revenues for reportable segments	2,872
Elimination of intersegment revenues	(437)
Group revenues	2,435
Profit or loss	
Total profit for reportable segments	1,495
Elimination of intersegment loss	-
Other unallocated amounts	-
Profit on ordinary activities before taxation	1,495
Assets	
Total assets for reportable segments	22,546
Elimination of intersegment receivables	(376)
Group assets	22,170
Liabilities	
Total liabilities for reportable segments	594
Elimination of intersegment payables	(376)
Group liabilities	218

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019 (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 2018 US\$'000
	2018 US\$'000	2018 US\$'000	2018 US\$'000	2018 US\$'000	2018 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	-
Loss 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019 (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 2018: £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 2019 have an exercise price of 24p and a weighted average contractual life of 2 years. Outstanding share options are contingent upon the option holder remaining an employee of the Group.

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 2019 (continued)

5. TAXATION

Taxation rates applicable to the parent company and the Cypriot, UK, Luxembourg, Cayman and Romanian subsidiaries range from 0% to 19% (2018: 0% to 19%).

Consolidated statement of profit or loss	Six months ended 30 June 2019 US\$'000	Six months Ended 30 June 2018 US\$'000
Taxation charge for the period on Group companies	19	11

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 2019 US\$'000	Six months Ended 30 June 2018 US\$'000
Profit/(loss) before tax	1,495	(714)
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Timing differences	-	-
Non-deductible expenses	-	-
Other adjustments	(31)	22
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	50	(11)
Tax charge	19	11

Consolidated statement of financial position

	30 June 2019 US\$'000	31 December 2018 US\$'000
Corporation tax (payable)/receivable	(4)	5

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019 (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 2019 US\$'000	Six months ended 30 June 2018 US\$'000
Net profit/(loss) for the period after taxation attributable to members	1,476	(725)
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings per share	42,996,432	47,032,878
Effect of dilution (Note 4)	4,340,000	4,340,000
Weighted average number of ordinary shares for diluted earnings per share	47,336,432	52,372,878
	Six months Ended 30 June 2019 US\$	Six months ended 30 June 2018 US\$
Earnings per share (basic)	0.03	(0.02)
Earnings per share (diluted)	0.03	(0.01)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019 (continued)

7. LAND, FIXTURES, FITTINGS AND EQUIPMENT

	Fixtures, fittings and equipment	Land	Total
	US\$'000	US\$'000	US\$'000
Cost			
At 1 January 2018	269	193	462
Additions	8	-	8
Disposals	-	-	-
Foreign exchange movement	(11)	(9)	(20)
At 31 December 2018	266	184	450
Additions	1	-	1
Foreign exchange movement	(3)	(1)	(4)
At 30 June 2019	264	183	447
Accumulated Depreciation			
At 1 January 2018	235	-	235
Depreciation charge for period	12	-	26
Disposals	-	-	-
Foreign exchange movement	(9)	-	9
At 31 December 2018	238	-	238
Depreciation charge for period	5	-	5
Foreign exchange movement	(3)	-	(3)
At 30 June 2019	240	-	240
Net book value			
At 31 December 2018	28	184	212
At 30 June 2019	24	183	207

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019 (continued)

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Holding	Investment in management shares	30 June 2019 Total cost US\$'000	30 June 2019 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
57,310	The Argo Fund Ltd*	15,472	18,966
-	Argo Real Estate Opportunities Fund Ltd	-	-
115	Argo Special Situations Fund LP	115	45
221	Argo Distressed Credit Fund Limited*	786	779
		14,262	19,790

Holding	Investment in management shares	31 December 2018 Total cost US\$'000	31 December 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
57,309	The Argo Fund Ltd*	15,472	18,193
30,056,500	Argo Real Estate Opportunities Fund Ltd	988	119
115	Argo Special Situations Fund LP	115	40
-	Argo Distressed Credit Fund Ltd*	-	-
		16,575	18,352

*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.

During the period, the Group sold its investment of 30,056,500 shares in AREOF at €0.02 each for 221 shares in ADCF in consideration.

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2019 US\$ '000	At 31 December 2018 US\$ '000
Trade receivables – Gross	9,873	9,752
Less: provision for impairment of trade receivables	(9,196)	(9,188)
Trade receivables - Net	677	564
Other receivables	121	111
Prepayments and accrued income	89	82
	887	757

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 2019 (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\$11.8 million (€10.3 million) (31 December 2018: US\$11.6 million, €10.1 million).

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

	At 30 June 2019 US\$ '000	At 31 December 2018 US\$ '000
Opening balance	11,803	10,992
Bad debt recovered	(338)	-
Charged during the period	633	1,350
Foreign exchange movement	(90)	(539)
Closing balance	12,008	11,803

10. LOANS AND ADVANCES RECEIVABLE

	At 30 June 2019 US\$'000	At 31 December 2018 US\$'000
Deposits on leased premises – current	15	-
Deposits on leased premises - non-current (see below)	103	118
Other loans and advances receivable – non-current	-	-
	118	118

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 2019 US\$'000	At 31 December 2018 US\$'000
Non-current:		
Lease expiring in second year after the reporting date	-	14
Lease expiring in fourth year after the reporting date	103	-
Lease expiring in fifth year after reporting date	-	104
	103	118

11. SHARE CAPITAL

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

	30 June 2019 No.	30 June 2019 US\$'000	31 December 2018 No.	31 December 2018 US\$'000
Issued and fully paid				
Ordinary shares of US\$0.01 each	38,959,986	390	47,032,878	470
	38,959,986	390	47,032,878	470

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2018 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 2019 (continued)

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

	Six months ended 30 June 2019 US\$'000	Six months ended 30 June 2018 US\$'000
Profit/(loss) on ordinary activities before taxation	1,495	(714)
Interest income	(90)	(99)
Depreciation	5	6
Realised and unrealised (gain)/loss	(1,438)	238
Net foreign exchange loss/(gain)	20	(1)
Increase/(decrease) in payables	34	(1,943)
(Increase)/decrease in receivables, loans and advances	(48)	5,878
Corporation tax paid	(10)	-
Net cash (outflow)/inflow from operating activities	(32)	3,365

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 2019			
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total US\$ '000
Financial assets at fair value through profit or loss	-	19,745	45	19,790

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

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 2019	119	40	159
Total profit recognized in profit or loss	667	5	672
Transfer to ADCF	(786)	-	(786)
Balance as at 30 June 2019	-	45	45

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019 (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 Special Situations Fund LP and Argo Distressed Credit Fund Limited. These investments are reflected in the accounts at fair value of US\$18.9 million, US\$0.04 million and US\$0.8 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 2019 total US\$ Nil (31 December 2018: US\$ Nil) after a bad debt provision of US\$9.1 million (€8.0 million) (31 December 2018: US\$8.9 million, €7.8 million). AREOF paid US\$0.3 million (€0.3 million) towards management fees owed to the Group in June 2019. 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\$2.3 million (€2.0 million) (31 December 2018: US\$2.2 million, €1.9 million) by AREOF accruing interest at 10%. The Company is also owed a further amount of US\$0.4 million (€0.3 million) (31 December 2018: US\$0.4 million, €0.4 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.



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