



ARGO

ARGO GROUP LIMITED

**UNAUDITED INTERIM REPORT AND ACCOUNTS
FOR THE SIX MONTHS ENDED 30 JUNE 2013**

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 month period ended 30 June 2013**

- Revenues US\$4.7 million (six months to 30 June 2012: US\$3.9 million)
- Operating profit US\$0.8 million (six months to 30 June 2012: US\$0.7 million)
- Profit before tax US\$1.7 million (six months to 30 June 2012: loss US\$15.3 million after a one-off goodwill impairment charge of US\$14.9 million)
- Net assets US\$27.9 million (31 December 2012: US\$27.7 million) after a dividend payment of US\$1.3 million

The Group and its objective

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

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

Business and operational review

This report sets out the interim results of Argo Group Limited for the half year ended 30 June 2013.

During the period under review markets were volatile and the optimistic tone at the start of the year gave way to a difficult second quarter. Despite this, Argo has made some progress during the period with Argo Distressed Credit Fund ("ADCF") exceeding its high-water mark and generating incentive fees in excess of the comparative period. The Argo funds ended the period with Assets under Management ("AUM") at US\$308.0 million, 7.1% lower than at the beginning of the period.

For the six month period ended 30 June 2013 the Group generated revenues of US\$4.7 million (six months to 30 June 2012: US\$3.9 million) with management fees accounting for US\$3.5 million (six months to 30 June 2012: US\$3.5 million). The Group generated incentive fees of US\$0.8 million during the period (six months to 30 June 2012: Nil). However, these incentive fees were mostly derived as a result of the revaluation of an investment in an Indonesian petrochemicals refinery, PT Trans-Pacific Petrochemical Industries ("TPPI"), which has not yet been realised. As detailed below a non binding offer to purchase the position has been received from a credible counterparty. It must be noted that the valuation of TPPI is held in the Argo funds at the level indicated by the offer received, even though our third party valuation indicates a higher valuation.

Total core operating costs fell by US\$0.5 million from US\$3.2 million to US\$2.7 million. Total operating costs include a bad debt provision of US\$1.3 million. This explains how total operating costs have risen to US\$4.0 million (six months to 30 June 2012: US\$3.2 million). The Group has provided fully against management fees due from Argo Real Estate Opportunities Fund Limited ("AREOF") on the basis that it has provided AREOF with a notice of deferral until such time that AREOF is in a position to pay these fees.

Overall, the financial statements show an operating profit for the period of US\$0.8 million (six months to 30 June 2012: US\$0.7 million) and a profit before tax of US\$1.7 million (six months to 30 June 2012: loss US\$15.3 million after a one-off goodwill impairment charge of US\$ 14.9 million) reflecting the unrealised gain on current asset investments of US\$1.0 million (six months to 30 June 2012: unrealised loss US\$1.0 million).

The number of employees of the Group at 30 June 2013 was 41 (six months to 30 June 2012: 41).

At 30 June 2013, the Group had net assets of US\$27.9 million (31 December 2012: US\$27.7 million) and net current assets of US\$27.4 million (31 December 2012: US\$27.4 million) after paying a dividend of 2.1 cents (1.3 pence) per share on 26 April 2013 (2012: 2.0 cents, 1.3 pence).

CHAIRMAN'S STATEMENT (continued)
Business and operational review (continued)

Net current assets include investments in The Argo Fund ("TAF"), AREOF and Argo Special Situations Fund LP ("SSF") at fair values of US\$19.1 million (31 December 2012: US\$17.6 million), US\$0.2 million (31 December 2012: US\$0.8 million) and US\$0.09 million (31 December 2012: US\$0.1 million) respectively. Our continued investment in our funds supports the liquidity of those funds and demonstrates the commitment of the Group towards its fund investors. This close alignment results in a high correlation between the performance of the Company and the performance of its funds.

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 2013 total US\$3,667,331 (€2,819,505) (31 December 2012: US\$2,597,188 (€1,965,333)) before a bad debt provision of US\$2,276,225 (€1,750,000) (31 December 2012: US\$991,125 (€750,000)). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows with a further US\$1,188,000 (€900,000) being settled in July 2013. The AREOF management contract has a fixed term expiring on 31 July 2018. We believe that the AREOF shopping centres remain good assets that will continue to deleverage and are an excellent way to invest in the recovery of the Romanian and Ukrainian economies.

During the period Argo Group advanced US\$1,300,700 (€1,000,000) to Bel Rom Trei ("Bel Rom"), an AREOF Group entity based in Romania that owns Sibiu Shopping City, in order to assist with its operational cash requirements. Challenging trading conditions have impacted Bel Rom's cash flow and its ability to meet payments due to lending banks as and when they fall due. The situation is being remedied by way of discussions with the lending banks with a view to restructuring these loans. While these discussions are ongoing to find an agreeable solution for both parties, Bel Rom continues to enjoy the support of its banks. The loan is repayable on demand and accrues interest at 12%. The full amount of the loan remains outstanding at 30 June 2013. The Directors consider this loan to be fully recoverable on the basis that discussions with lending banks are progressing well and that Sibiu Shopping City is the strongest centre within Argo's property portfolio in Romania with high occupancy and a healthy tenant demand.

Fund performance
Argo Funds

Fund	Launch date	30 June 2013 6 months	30 June 2012 6 months	2012 year total	Since inception	Annualised performance CAGR %	Sharpe ratio	Down months	AUM US\$m
The Argo Fund	Oct-00	8.64	-4.70	-0.07	154.58	8.44	0.69	34 of 153	93.7
Argo Distressed Credit Fund	Oct-08	11.88	-3.19	24.05	76.37	12.84	0.94	20 of 57	27.5
Argo Special Situations Fund LP	Feb-12	-20.6	-4.30	-2.80	-22.70	-16.70	-1.04	14 of 17	91.9
Argo Local Markets Fund	Nov-12	-5.34	N/A	N/A	-1.42	N/A	N/A	4 of 8	5.8
Argo Real Estate Opportunities Fund	Aug-06	-7.09	-7.17	-3.76	-33.70	-8.93	N/A	42 of 84*	89.1*
Total									308.0

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

The period started on a positive note with improved sentiment towards the Euro and greater risk appetite amongst investors. The bailout of Cyprus and its banks gave investors cause to reconsider their risk appetite by the end of the first quarter and by May emerging market local bonds had been particularly hard hit by news from the US that it may begin to rein-in its bond purchases under the quantitative easing programme.

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

At 30 June 2013, TAF was ahead by 8.64%, as was ADCF by 11.88%. The main driver in the performance of both of these funds was the mark-up in their investment in TPPI. By comparison, the main hedge fund indices showed a small positive return of 0.97% for the same period.

SSF finished in negative territory at the period end showing a negative return of 20.6%. The main contributors to this position were the decline in share price of AREOF; a write down in the value of an investment in the Greek telecommunications company, On Telecoms; a higher valuation ascribed to the investment in TPPI.

On Telecoms turned EBITDA negative again in April after two years of positive results. Intense competition within the telecommunications sector has led to a severe deterioration of the business with churning rates at elevated levels and a push for a major restructuring with the main lender to the company. In view of the negative EBITDA and the increasing churn rates the position has been substantially written down.

The implementation of the restructuring programme at TPPI is continuing and progress to date suggests a much clearer path to a liquidity event. SSF has now received an offer to sell its claim that will be converted into TPPI equity subject to the buyer's internal approval process. It is hoped that settlement of this transaction will occur soon, however, there is no binding contract in place yet. The transaction, if completed, will be a significant liquidity event for the Group.

The Argo Local Markets Fund ("ALMF") was particularly hard hit in May when it felt the impact of higher US interest rates and a stronger US dollar following on from the change in tone from the US Federal Reserve. During the period ALMF opened a number of interest rate swap lines with counterparties and is now better placed to hedge or short EM rates in accordance with its mandate. At the period end ALMF finished behind by 5.34%.

AREOF continues to operate in a challenging environment. While macroeconomic conditions are improving, albeit slowly, the uncertainties in Europe mean that the recovery in markets where AREOF operates remain subdued. Even though growth in the underlying economies is quite good, consumer spending is rebounding very slowly.

The continuing effect of low disposable incomes, the lack of investment income and political uncertainties all combine to keep retail sales depressed, particularly in Romania. In such circumstances, the balance of negotiation interest continues to favour the tenant and the need for the landlord to continue to provide rental concessions, albeit at a reducing level, or fit-out contributions to attract stronger tenants, impacts AREOF's cash flows.

The reduced level of cash flow, while being proactively managed, affected the Group's ability to meet all payments due to certain of the lending banks as and when they fell due. This situation is being remedied by way of discussions with the lending banks where these breaches of terms have occurred with a view to restructuring the loans to better align the AREOF Group's cash flows to the loan commitments during this subdued trading period. While the discussions with the relevant banks are on-going to find an agreeable solution for both parties, AREOF continues to enjoy the support of its banks.

AREOF has also been affected by the financial crisis that occurred in Cyprus in April of this year, as it has loan facilities with Cypriot banks that are subject to the restructuring process in Cyprus. This has frustrated the AREOF Group's ability to conclude loan restructuring negotiations, to access funds to complete asset development initiatives and to meet its working capital needs.

Despite the challenging environment in Romania, AREOF's 77,000 sqm Sibiu Shopping City maintains a dominant trading position in the region. Following the completion of asset management initiatives last year occupancy is currently 92%. Tenant demand remains strong and vacant space is likely to be fully filled by the end of the year.

AREOF's adjusted Net Asset Value was US\$89.1 million (€68.5 million) as at 31 March 2013, compared with US\$88.1 million (€70.0 million) a year earlier. AREOF remains a major listed owner and operator of retail parks in the country thus making it more marketable to international investors over the long term. Further information may be found in the published accounts of AREOF on its website at www.argocapitalproperty.com.

CHAIRMAN'S STATEMENT (continued)

Dividends

During the period the Group paid a dividend of 2.1 cents (1.3 pence) per share (2012: 2.0 cents, 1.3 pence). Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

Outlook

At the end of 2012 emerging markets had outperformed developed markets for the first time in two years as sentiment towards the euro improved and investors showed a greater appetite for risk. This optimism flowed through into early 2013 but reversed by the end of the second quarter following the hard-hitting news from the US. Momentum has stalled as sentiment across all asset classes including emerging markets has deteriorated. It is under these difficult global market conditions that Argo continues to face the challenge of increasing its AUM.

The Board believes that although markets remain volatile there are still reasons for a positive outlook. The inflation outlook appears subdued and interest rates are unlikely to rise for some considerable time yet. Industry performance is improving and investors are showing a greater interest in allocating money to hedge funds. Argo has a strong, debt free balance sheet and a cost base that has been trimmed and well-aligned with its lower AUM. With a continued focus on the best use of resources Argo is well-positioned to navigate the economic and political challenges ahead and eventually benefit from an upturn in the global markets and in particular emerging markets.



Michael Kloter
Non-Executive Chairman
Date: 27 August 2013

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

Andreas Rialas***Chief Investment Officer***

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

David Fisher***Non-Executive Director***

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

Kenneth Watterson***Non-Executive Director***

Kenneth has 23 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 Director and Fellow of the Institute of Directors.

ARGO GROUP LIMITED
**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2013**

	Note	Six months ended 30 June 2013 US\$'000	Six months ended 30 June 2012 US\$'000
Management fees		3,453	3,543
Incentive fees		803	-
Other income		459	316
Revenue		4,715	3,859
Legal and professional expenses		(120)	(178)
Management and incentive fees payable		(116)	(7)
Operational expenses		(612)	(845)
Employee costs		(1,752)	(1,832)
Bad debt provision		(1,323)	-
Foreign exchange gain/(loss)		37	(2)
Amortisation of intangible assets	7	-	(317)
Depreciation	8	(65)	(14)
Operating profit		764	664
Impairment of intangible assets	7	-	(14,945)
Interest income on cash and cash equivalents		9	8
Unrealised gain/(loss) on investments		958	(1,014)
Profit/(loss) on ordinary activities before taxation		1,731	(15,287)
Taxation	5	(109)	(76)
Profit/(loss) for the period after taxation attributable to members of the Company	6	1,622	(15,363)
Other comprehensive income			
Exchange differences on translation of foreign operations		(137)	(127)
Total comprehensive income/(loss) for the period		1,485	(15,490)
		Six months Ended 30 June 2013 US\$	Six months Ended 30 June 2012 US\$
Earnings per share (basic)	6	0.02	-0.23
Earnings per share (diluted)	6	0.02	-0.23

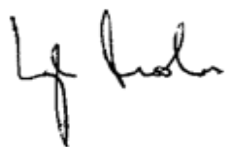
The Directors consider that all results derive from continuing activities.

The notes on pages 13 to 24 form part of these condensed financial statements.

ARGO GROUP LIMITED**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013**

	Note	30 June 2013 US\$'000	At 31 December 2012 US\$'000
Assets			
Non-current assets			
Intangible assets	7	-	-
Fixtures, fittings and equipment	8	177	221
Loans and advances receivable	11	255	118
Total non-current assets		432	339
Current assets			
Investments	9	19,436	18,478
Trade and other receivables	10	3,033	4,284
Cash and cash equivalents		4,298	5,139
Loans and advances receivable	11	1,301	142
Total current assets		28,068	28,043
Total assets		28,500	28,382
Equity and liabilities			
Equity			
Issued share capital	12	674	674
Share premium		30,878	30,878
Revenue reserve		(1,400)	(1,674)
Foreign currency translation reserve		(2,301)	(2,164)
Total equity		27,851	27,714
Current liabilities			
Trade and other payables		433	467
Taxation payable	5	216	201
Total current liabilities		649	668
Total equity and liabilities		28,500	28,382

These interim financial statements were approved by the Board of Directors on 27 August 2013 and signed on its behalf by:



Kyriakos Rialas
Chief Executive Officer



Michael Kloter
Non-Executive Chairman

The notes on pages 13 to 24 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 2013**

	Issued share capital 2012 US\$'000	Share premium 2012 US\$'000	Revenue reserve 2012 US\$'000	Foreign currency translation reserve 2012 US\$'000	Total 2012 US\$'000
As at 1 January 2012	674	30,878	14,123	(2,250)	43,425
Total comprehensive income					
Loss for the period after taxation	-	-	(15,363)	(127)	(15,490)
Transactions with owners recorded directly in equity					
Dividends to equity holders (Note 12)	-	-	(1,393)	-	(1,393)
As at 30 June 2012	674	30,878	(2,633)	(2,377)	26,542

	Issued share capital 2013 US\$'000	Share premium 2013 US\$'000	Revenue reserve 2013 US\$'000	Foreign currency translation reserve 2013 US\$'000	Total 2013 US\$'000
As at 1 January 2013	674	30,878	(1,674)	(2,164)	27,714
Total comprehensive income					
Profit for the period after taxation	-	-	1,622	(137)	1,485
Transactions with owners recorded directly in equity					
Dividends to equity holders (Note 12)	-	-	(1,348)	-	(1,348)
As at 30 June 2013	674	30,878	(1,400)	(2,301)	27,851

The notes on pages 13 to 24 form part of these condensed financial statements.

ARGO GROUP LIMITED**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2013**

	Note	Six months ended 30 June 2013 US\$'000	Six months ended 30 June 2012 US\$'000
Net cash inflow from operating activities	13	619	151
Cash flows used in investing activities			
Interest received on cash and cash equivalents		9	8
Purchase of fixtures, fittings and equipment	8	(27)	(8)
Purchase of current asset investments	9	-	(2,000)
Net cash used in investing activities		(18)	(2,000)
Cash flows used in financing activities			
Dividends paid	12	(1,348)	(1,393)
Net cash used in financing activities		(1,348)	(1,393)
Net decrease in cash and cash equivalents		(747)	(3,242)
Cash and cash equivalents at 1 January 2013 and 1 January 2012		5,139	8,358
Foreign exchange loss on cash and cash equivalents		(94)	(107)
Cash and cash equivalents as at 30 June 2013 and 30 June 2012		4,298	5,009

The notes on pages 13 to 24 form part of these condensed financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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 Company as at and for the six months ended 30 June 2013 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 2012 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 41 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 (formerly North Asset 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 2012.

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 2012.

These condensed consolidated interim financial statements were approved by the Board of Directors on 27 August 2013.

(b) Financial instruments and fair value hierarchy

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

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

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

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

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

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013 (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	Other	Six months ended 30 June 2013
	2013	2013	2013	2013	2013	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenues from external customers	-	2,943	-	1,772	-	4,715
Intersegment revenues	400	-	1,476	-	-	1,876
Reportable segment profit/(loss)	1,161	456	468	(306)	-	1,779
Intersegment profit/(loss)	400	(1,871)	1,476	-	-	5
Profit/(loss) excluding inter-segment transactions	761	2,327	(1,008)	(306)	-	1,774
Reportable segment assets	49,695	2,837	2,697	3,546	121	58,896
Reportable segment liabilities	56	954	175	233	26	1,444

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

	Six months ended 30 June 2013 US\$'000
Revenues	
Total revenues for reportable segments	6,591
Elimination of intersegment revenues	(1,876)
Group revenues	4,715
Profit or loss	
Total profit for reportable segments	1,779
Elimination of intersegment losses	(5)
Other unallocated amounts	(43)
Profit on ordinary activities before taxation	1,731
Assets	
Total assets for reportable segments	58,896
Elimination of intersegment receivables	(798)
Elimination of Company's cost of investments	(29,598)
Group assets	28,500
Liabilities	
Total liabilities for reportable segments	1,444
Elimination of intersegment payables	(795)
Group liabilities	649

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013 (continued)

3. SEGMENTAL ANALYSIS (continued)

	Argo Group Ltd	Argo Capital Management (Cyprus) Ltd	Argo Capital Management Ltd	Argo Capital Management Property Ltd	Other	Six months ended 30 June 2012
	2012	2012	2012	2012	2012	2012
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenues from external customers	-	2,245	-	1,614	-	3,859
Intersegment revenues	2,200	-	1,093	-	184	3,477
Reportable segment profit/(loss)	968	(1,443)	(510)	581	18	(386)
Intersegment profit/(loss)	2,200	(3,297)	909	-	184	(4)
Profit/(loss) excluding inter-segment transactions	(1,232)	1,854	(1,419)	581	(166)	(382)
Reportable segment assets	48,999	830	2,352	4,442	430	57,053
Reportable segment liabilities	67	396	255	153	26	897

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

	Six months ended 30 June 2012 US\$'000
Revenues	
Total revenues for reportable segments	7,336
Elimination of intersegment revenues	(3,477)
Group revenues	3,859
Profit or loss	
Total loss for reportable segments	(386)
Elimination of intersegment losses	4
Other unallocated amounts	(14,905)
Loss on ordinary activities before taxation	(15,287)
Assets	
Total assets for reportable segments	57,053
Elimination of intersegment receivables	(325)
Elimination of Company's cost of investments	(29,598)
Group assets	27,130
Liabilities	
Total liabilities for reportable segments	897
Elimination of intersegment payables	(309)
Group liabilities	588

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013 (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.

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	5,415,000
Granted during the period	-	-
Forfeited during the period	-	-
Outstanding at end of period	24.0p	5,415,000
Exercisable at end of period	24.0p	2,707,500

The options outstanding at 30 June 2013 have an exercise price of 24p and a weighted average contractual life of 10 years. They expire after 10 years. Outstanding share options are contingent upon the option holder remaining an employee of the Group.

The weighted average fair value of the options outstanding at the period end was nil.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013 (continued)

5. TAXATION

Taxation rates applicable to the parent company and the Cypriot, UK, Luxembourg, Cayman and Romanian subsidiaries range from 0% to 23% (2012: 0% to 25%).

Income Statement	Six months ended 30 June 2013 US\$'000	Six months ended 30 June 2012 US\$'000
Taxation charge for the period on Group companies	109	76

The charge for the period can be reconciled to the profit per the Condensed Consolidated Statement of Comprehensive Income as follows:

	Six months ended 30 June 2013 US\$'000	Six months ended 30 June 2012 US\$'000
Profit/(loss) before tax	1,731	(15,287)
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Timing differences	2	(5)
Non-deductible expenses	7	8
Non-taxable income	-	(1)
Other adjustments	-	(2)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	100	76
Tax charge	109	76

Balance Sheet

	30 June 2013 US\$'000	31 December 2012 US\$'000
Corporation tax payable	216	201

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

For the six months ended 30 June 2013 (continued)

6. EARNINGS PER SHARE

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

	Six months ended 30 June 2013 US\$'000	Six months ended 30 June 2012 US\$'000
Net profit/(loss) for the period after taxation attributable to members	1,622	(15,363)
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings per share	67,428,494	67,428,494
Effect of dilution (Note 4)	5,415,000	5,415,000
Weighted average number of ordinary shares for diluted earnings per share	72,843,494	72,843,494
	Six months ended 30 June 2013 US\$	Six months ended 30 June 2012 US\$
Earnings per share (basic)	0.02	-0.23
Earnings per share (diluted)	0.02	-0.23

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013 (continued)

7. INTANGIBLE ASSETS

	Fund management contracts US\$'000
Cost	
At 1 January 2012	18,640
Foreign exchange movement	195
At 31 December 2012	18,835
Foreign exchange movement	-
At 30 June 2013	18,835
Amortisation and impairment	
At 1 January 2012	2,698
Impairment charge	14,945
Amortisation of Argo business intangible assets	990
Foreign exchange movement	202
At 31 December 2012	18,835
Amortisation of Argo business intangible assets	-
Foreign exchange movement	-
At 30 June 2013	18,835
Net book value	
At 31 December 2012	-
At 30 June 2013	-

In prior years the Group tested intangible assets annually for impairment, or more frequently if there were indications that the intangible assets could be impaired. The recoverable amounts of the intangible assets that were reviewed for impairment were separately identifiable business units within the Group. The value in use approach was used as the businesses were not considered saleable in their current form due to certain factors, the main being reliance on certain key individuals.

Since the acquisition of the Argo businesses in 2008 the assets under management attributable to the Group's separately identifiable business units had decreased significantly due to the volatility and uncertainty displayed by the global financial markets. As a result, operations were scaled back and an impairment review of goodwill was undertaken at 30 June 2012. Following the review, goodwill of US\$14.9 million created on the purchase of the Argo businesses was written off at 30 June 2012. At the balance sheet date the carrying value of goodwill is nil (31 December 2012: Nil).

At the balance sheet date the carrying value of the Argo Real Estate Opportunities Fund Ltd management contract is nil (31 December 2012: Nil) following its full amortisation during the year ended 31 December 2012. The Group has successfully renegotiated the extension of this management contract by five years from 31 July 2013 to 31 July 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013 (continued)

8. FIXTURES, FITTINGS AND EQUIPMENT

	Fixtures, fittings & equipment US\$'000
Cost	
At 1 January 2012	357
Additions	225
Disposals	(231)
Foreign exchange movement	21
At 31 December 2012	372
Additions	27
Foreign exchange movement	(14)
At 30 June 2013	385
Accumulated Depreciation	
At 1 January 2012	287
Depreciation charge for period	73
Disposal	(231)
Foreign exchange movement	22
At 31 December 2012	151
Depreciation charge for period	65
Foreign exchange movement	(8)
At 30 June 2013	208
Net book value	
At 31 December 2012	221
At 30 June 2013	177

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

For the six months ended 30 June 2013 (continued)

9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Holding	Investment in management shares	30 June 2013 Total cost US\$'000	30 June 2013 Fair value US\$'000
10	The Argo Fund Ltd	0	0
100	Argo Distressed Credit Fund Ltd	0	0
1	Argo Special Situations Fund LP	0	0
1	Argo Local Markets Fund	0	0
		0	0

Holding	Investment in ordinary shares	Total cost US\$'000	Fair value US\$'000
75,165	The Argo Fund Ltd	16,343	19,135
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	212
115	Argo Special Situations Fund LP	115	89
		17,446	19,436

Holding	Investment in management shares	31 December 2012 Total cost US\$'000	31 December 2012 Fair value US\$'000
10	The Argo Fund Ltd	0	0
100	Argo Distressed Credit Fund Ltd	0	0
1	Argo Special Situations Fund LP	0	0
1	Argo Local Markets Fund	0	0
		0	0

Holding	Investment in ordinary shares	Total cost US\$'000	Fair value US\$'000
75,165	The Argo Fund Ltd	16,343	17,613
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	753
115	Argo Special Situations Fund LP	115	112
		17,446	18,478

10. TRADE AND OTHER RECEIVABLES

During the year ended 31 December 2011 the Group provided Argo Real Estate Opportunities Fund Ltd ("AREOF") (to whom it provides investment management services) 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 2013 total US\$3,667,331 (€2,819,505) (31 December 2012: US\$2,597,188, €1,965,333) before a bad debt provision of US\$2,276,225 (€1,750,000) (31 December 2012: US\$991,125, €750,000). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows with a further US\$1,188,000 (€900,000) being settled in July 2013.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013 (continued)

10. TRADE AND OTHER RECEIVABLES (continued)

In the audited financial statements of AREOF at 30 September 2012 and the interim report of AREOF at 31 March 2013, a material uncertainty surrounding ongoing discussions with its bankers and the prevailing trading environment was referred to in relation to the basis of preparation of the financial statements. In the view of the directors of AREOF, discussions with the banks are continuing satisfactorily and they have therefore concluded that it is appropriate to prepare those financial statements on a going concern basis.

11. LOANS AND ADVANCES RECEIVABLE

During the period Argo Group advanced US\$1,300,700 (€1,000,000) to Bel Rom Trei ("Bel Rom"), an AREOF Group entity based in Romania that owns Sibiu Shopping City, in order to assist with its operational cash requirements. Challenging trading conditions have impacted Bel Rom's cash flow and its ability to meet payments due to lending banks as and when they fall due. The situation is being remedied by way of discussions with the lending banks with a view to restructuring these loans. While these discussions are on-going to find an agreeable solution for both parties, Bel Rom continues to enjoy the support of its banks. The loan is repayable on demand and accrues interest at 12%. The full amount of the loan remains outstanding at 30 June 2013. The Directors consider this loan to be fully recoverable on the basis that discussions with lending banks are progressing well and that Sibiu Shopping City is the strongest centre within Argo's property portfolio with high occupancy and a healthy tenant demand.

12. SHARE CAPITAL

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

	30 June 2013 No.	30 June 2013 US\$'000	31 December 2012 No.	31 December 2012 US\$'000
Issued and fully paid				
Ordinary shares of US\$0.01 each	67,428,494	674	67,428,494	674
	67,428,494	674	67,428,494	674

The directors recommended a final dividend of 2.1 cents (1.3 pence) per share for the year ended 31 December 2012 (31 December 2011: 2.0 cents, 1.3 pence). The final dividend for the year ended 31 December 2012 of US\$1,348,287 (GBP876,570) (31 December 2011: US\$1,392,885, GBP 876,570) was paid on 26 April 2013 to ordinary shareholders who were on the Register of Members on 2 April 2013. Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013 (continued)

13. RECONCILIATION OF NET CASH INFLOW FROM OPERATING ACTIVITIES TO PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Six months ended 30 June 2013 US\$'000	Six months ended 30 June 2012 US\$'000
Profit/(loss) on ordinary activities before taxation	1,732	(15,287)
Interest income	(9)	(8)
Impairment charge	-	14,945
Amortisation of intangible assets	-	317
Depreciation	65	14
Unrealised (gain)/loss on investments	(958)	1,014
Net foreign exchange (gain)/loss	(37)	2
Decrease in payables	(34)	(552)
Increase in receivables	(45)	(282)
Income taxes paid	(94)	(12)
Net cash inflow from operating activities	619	151

14. 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 2).

	At 30 June 2013			Total US\$ '000
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	
Financial assets at fair value through profit or loss	212	19,224	-	19,436

	At 31 December 2012			Total US\$ '000
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	
Financial assets at fair value through profit or loss	753	17,725	-	18,478

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013 (continued)

15. RELATED PARTY TRANSACTIONS

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

At the balance sheet date the Company holds investments in The Argo Fund Limited, Argo Real Estate Opportunities Fund Limited ("AREOF") and Argo Special Situations Fund LP. These investments are reflected in the accounts at a fair value of US\$19,135,120, US\$212,645 and US\$88,669 respectively.

During the year ended 31 December 2011 the Group provided AREOF (to whom it provides investment management services) 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 2013 total US\$3,667,331 (€2,819,505) (31 December 2012: US\$2,597,188, €1,965,333) before a bad debt provision of US\$2,276,225 (€1,750,000) (31 December 2012: US\$991,125, €750,000). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows with a further US\$1,188,000 (€900,000) being settled in July 2013.

In the audited financial statements of AREOF at 30 September 2012 and the interim report of AREOF at 31 March 2013, a material uncertainty surrounding ongoing discussions with its bankers and the prevailing trading environment was referred to in relation to the basis of preparation of the financial statements. In the view of the directors of AREOF, discussions with the banks are continuing satisfactorily and they have therefore concluded that it is appropriate to prepare those financial statements on a going concern basis.

During the period Argo Group advanced US\$1,300,700 (€1,000,000) to Bel Rom Trei Srl, an AREOF Group entity based in Romania that owns Sibiu Shopping City, in order to assist with its operational cash requirements. The loan is repayable on demand and accrues interest at 12%. The full amount of the loan remains outstanding at 30 June 2013.

Michael Kloter, the non-executive chairman, is also partner in a legal firm which supplies services to the Group. This firm charged nil (six months ended 30 June 2012: US\$1,530) for services rendered to the Group in the period.

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



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