



ARGO

ARGO GROUP LIMITED

**UNAUDITED INTERIM REPORT AND ACCOUNTS
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

MANAGEMENT AND ADMINISTRATION

DIRECTORS

Michael Kloter
Kyriakos Rialas
Andreas Rialas
David Fisher
Kenneth Watterson

REGISTERED OFFICE

33-37 Athol Street
Douglas
Isle of Man
IM1 1LB

PRINCIPAL BANKERS

The Royal Bank of Scotland
97 Bond Street
London
W1S 1EU

Marfin Laiki Bank
12 Hay Hill
London
W1J 8NR

Bank of Cyprus
51 Stasinou Street
Ayia paraskevi
Nicosia
Cyprus

United Overseas Bank
80 Raffles Place UOB Plaza 1
Singapore 048624

AUDITORS

KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

NOMINATED ADVISER AND STOCKBROKER

Panmure Gordon (UK) Limited
One New Change
London
EC4M 9AF

REGISTRAR

Capita Registrars
PO Box 504
Beckenham
Kent
BR3 9GU

CONTENTS

Chairman's statement	3
Statement of directors' responsibilities in respect of the condensed consolidated interim financial statements	6
Directors	7
Condensed consolidated statement of comprehensive income	8
Condensed consolidated statement of financial position	9
Condensed consolidated statement of changes in shareholders' equity	10
Condensed consolidated statement of cash flows	11
Notes to the condensed consolidated interim financial statements	12

CHAIRMAN'S STATEMENT**Key highlights for the six month period ended 30 June 2012**

- Revenues US\$3.9 million (six months to 30 June 2011: US\$6.2 million)
- Operating profit US\$0.7 million (six months to 30 June 2011: US\$1.0 million)
- Loss before tax US\$15.3 million after a one-off goodwill impairment charge of US\$14.9 million (six months to 30 June 2011: profit US\$1.2 million)
- Net assets US\$26.5 million (31 December 2011: US\$43.4 million) after dividend payment of US\$1.4 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 2012.

In the period under review markets once again proved challenging with the European sovereign debt crisis continuing to dominate events. The ongoing turmoil in the Eurozone continues to act as a major drag on the performance of the Argo funds which ended the period with Assets under Management ("AUM") at US\$302.4 million, 7.0% lower than at the beginning of the period. The Argo funds have yet to regain their high-water mark.

For the six month period ended 30 June 2012 the Group generated revenues of US\$3.9 million (six months to 30 June 2011: US\$6.2 million) with management fees accounting for US\$3.5 million (six months to 30 June 2011: US\$4.9 million) reflecting the falling AUM throughout the period. There was no non-recurring income generated in the period.

In line with last year, the Group has continued to keep its cost base under review with total costs falling to US\$3.2 million (six months to 30 June 2011: US\$5.2 million). Further cost savings and efficiencies have been identified including the closure of the Buenos Aires office, with investments in Latin America continuing to be covered by the Group's investment teams operating out of its London office. The Group's cost base will remain under constant review whilst ensuring efficient deployment of Group resources and safeguarding of the requisite infrastructure.

Since the acquisition of the Argo businesses in 2008 the AUM attributable to the Group's separately identifiable business units have decreased significantly due to the volatility and uncertainty displayed by the global financial markets. As a result, operations have been scaled back and an impairment review of goodwill was undertaken at 30 June 2012. Following the review, the goodwill of US\$14.9 million created on the purchase of the Argo businesses has been written off during the period.

Overall, the financial statements show an operating profit for the period of US\$0.7 million (six months to 30 June 2011: US\$1.0 million) and a loss before tax of US\$15.3 million (six months to 30 June 2011: profit US\$1.2 million) reflecting the goodwill impairment of US\$14.9 million and the unrealised loss on current asset investments of US\$1.0 million (six months to 30 June 2011: unrealised gain US\$0.2 million).

At 30 June 2012, the Group had net assets of US\$26.5 million (31 December 2011: US\$43.4 million) and net current assets of US\$25.8 million (31 December 2011: US\$27.4 million) after paying a dividend of 2.0 cents (1.3 pence) per share on 20 June 2012 (2011: 1.9 cents, 1.2 pence) and a goodwill impairment charge of US\$14.9 million.

ARGO GROUP LIMITED

CHAIRMAN'S STATEMENT (continued)

Business and operational review (continued)

Net current assets include investments in The Argo Fund ("TAF") and Argo Real Estate Opportunities Fund Limited ("AREOF") at fair values of US\$16.8 million (31 December 2011: US\$15.5 million) and US\$0.7 million (31 December 2011: US\$1.0 million) respectively. During the period the Group invested a further US\$2 million in TAF.

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 2012 total US\$2,786,003 (€2,215,333). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows.

The number of employees of the Group at 30 June 2012 increased to 41 (six months to 30 June 2011: 30) predominantly due to the acquisition of the holding companies of the two shopping parks in Romania and the subsequent transfer of their staff to the Argo Group.

Fund performance

Whilst the performance of the Argo funds was disappointing it was near-inevitable given the prolonged period of volatility and uncertainty. The main fund, TAF, was behind by 4.70%, as was the Argo Distressed Credit Fund ("ADCF"), by 3.19%, albeit both funds finished on a positive note in June; by comparison, the main hedge fund indices showed a negative return of 0.36% for the same period.

Managing the Argo funds continues to be a challenge against the back-drop of the ongoing European debt crisis and turbulent markets, particularly as Argo specialises in illiquid funds. Investor confidence has been dented and, understandably, clients are reluctant to invest in illiquid assets at a time of such economic and political uncertainty.

Argo Funds

Fund	Launch date	30 June 2012 6 months	30 June 2011 6 months	2011 year total	Since inception	Annualised performance CAGR %	Sharpe ratio	Down months	AUM US\$m
		%	%	%	%				
The Argo Fund	Oct-00	-4.70	1.02	0.10	123.49	7.84	0.69	27 of 141	82.1
Argo Distressed Credit Fund	Oct-08	-3.19	-0.23	1.18	20.60	5.33	0.65	16 of 45	24.4
Argo Special Situations Fund LP	Feb-12	-4.30	N/A	N/A	-4.30	-10.10	-5.72	5 of 5	107.8
Argo Real Estate Opportunities Fund	Aug-06	-7.18	36.90	178.23	-30.65	-10.31	N/A	30 of 72*	88.1*
Total									302.4

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

On 1 February 2012, Argo completed a significant fund restructuring exercise to reconfirm its mandate with the investor base of AGSSF Holdings Limited ("AHL") and Argo Capital Partners Fund ("ACPF") and to attract new liquidity. The portfolio assets of AHL and ACPF were transferred into a new fund, Argo Special Situations Fund LP ("SSF"), in exchange for ordinary partnership interests in SSF with the objective of acquiring follow-on investments and maximising the value of the assets. The Fund has been successful in attracting new subscriptions with all investors being invited to subscribe for two-year preference shares targeting a 13.5% annualised return. As part of this restructuring exercise the high-water mark for earning performance fees was reset to zero. SSF is a closed-ended fund with a realisation period of three years subject to extension. SSF finished in negative territory at the period end showing a negative return of 4.3%, largely the result of currency movements.

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

AREOF continues to operate in a particularly challenging and difficult environment albeit one which appears to be stabilising. The uncertainties surrounding the Eurozone crisis have impacted economic performance and property asset valuations, with pressures from competing centres in several of the regions in which AREOF operates changing the balance of negotiation in favour of the tenant. Whilst tenants continue to seek rent concessions and turnover only rents, the properties are consistently 98-100% let.

Despite the challenging trading environment AREOF successfully completed asset management initiatives at Sibiu Shopping City, Romania and Riviera Shopping City, Odessa both of which continue to maintain their trading dominance in the respective regions. The recently acquired shopping parks, ERA Shopping Park, Oradea and ERA Shopping Park, Iasi, in Romania, are both anchored by prominent international retailers with the former completing development of its 16,000 sqm shopping mall in early spring 2012 and the latter hoping to agree the restructuring of a €77m debt facility with a view to commencing the final phase development of its 28,000 sqm shopping mall this year.

AREOF has successfully renegotiated and agreed terms with its existing bankers on several of its loans which will provide development cash flow to complete the final phase of the asset management initiative at Sibiu Shopping City, Romania due to be completed in 2012.

The Fund's adjusted Net Asset Value was US\$88.1 million (€70.0 million) as at 31 March 2012, compared with US\$53.4 million (€37.1 million) a year earlier, the increase being attributable to the acquisition of the two Romanian shopping parks, ERA Shopping Park, Oradea and ERA Shopping Park in September 2011. Following the purchase of these assets AREOF has become the largest 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.argoproperty.com.

During the period the decision was taken to terminate Argo Global Special Situations Fund. The size of the Fund had diminished greatly as a result of redemptions and reached the quantum where administrative costs were too high relative to the Fund's size to continue trading. Fund operations were terminated on 1 June 2012 with investors being given the option to continue their exposure to a distressed credit strategy by switching their investment to ADCF.

Dividends

During the period the Group paid a dividend of 2.0 cents (1.3 pence) per share (2011: 1.9 cents, 1.2 pence). Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

Outlook

Conditions in global financial markets are once again characterised by uncertainty amid investor anxiety about the future of the Eurozone. Unless there is a rapid return of investor confidence it is difficult to envisage anything other than another turbulent year ahead. This uncertainty has made attracting new investors to Argo's funds difficult.

Despite this backdrop the Group, with its strong balance sheet, is well positioned to continue to weather the economic and political challenges ahead. The business will continue to look for opportunities and invest in infrastructure where necessary whilst operating as cost-effectively as possible.

As a new initiative Argo is expanding its liquid product offering through a new fund, Argo Local Markets Fund, which will be launched over the coming months with the aim of achieving capital growth through investments in local bonds, interest rates and currency markets within the emerging markets sector.

The Board is confident that with its talented team the Group can continue to meet the ongoing economic challenges and is well placed to benefit from an eventual global recovery and in particular recovery of the emerging markets sector.


Michael Kloter
Non-Executive Chairman
Date: 28 August 2012

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 more than 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; of EnerCap Partners, a new renewable energy fund in Central Europe; and 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 15 years. Formerly he was Group Vice President and General Counsel of Communications Equity Associates, a worldwide media, entertainment and communications merchant bank. 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.

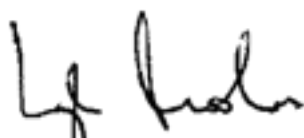
Kenneth Watterson***Non-Executive Director***

Kenneth has more than 25 years of experience within the financial services industry. His specific areas of expertise include compliance and risk management, operations and change management. Kenneth holds a Master's degree from the University of St. Andrews and a Master's degree from London Guildhall University in Financial Regulation & Compliance Management, specialising in Corporate Governance. He has board experience within a number of UK, Isle of Man and Channel Islands companies. Kenneth has worked with Coutts and Close Bros international private banks and as the Chief Operating Officer and director of a US\$1.6 billion hedge fund group. He is a Chartered Director as awarded by the Institute of Directors and a Chartered Fellow of the Chartered Institute for Securities & Investment.

ARGO GROUP LIMITED**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012**

	Note	30 June 2012 US\$'000	At 31 December 2011 US\$'000
Assets			
Non-current assets			
Intangible assets	7	660	15,942
Fixtures, fittings and equipment	8	62	70
Loans and advances receivable		37	38
Total non-current assets		759	16,050
Current assets			
Investments	9	17,525	16,539
Trade and other receivables	10	3,579	3,314
Cash and cash equivalents		5,009	8,358
Loans and advances receivable		258	240
Total current assets		26,371	28,451
Total assets		27,130	44,501
Equity and liabilities			
Equity			
Issued share capital	11	674	674
Share premium		30,878	30,878
Revenue reserve		(2,633)	14,123
Foreign currency translation reserve		(2,377)	(2,250)
Total equity		26,542	43,425
Current liabilities			
Trade and other payables		361	913
Taxation payable	5	227	163
Total current liabilities		588	1,076
Total equity and liabilities		27,130	44,501

These interim financial statements were approved by the Board of Directors on 28 August 2012 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 2012**

	Issued share capital 2011 US\$'000	Share premium 2011 US\$'000	Revenue reserve 2011 US\$'000	Foreign currency translation reserve 2011 US\$'000	Total 2011 US\$'000
As at 1 January 2011	737	32,199	13,645	(2,139)	44,442
Total comprehensive income					
Profit for the period after taxation	-	-	1,039	282	1,321
Transactions with owners recorded directly in equity					
Dividends to equity holders (Note 11)	-	-	(1,418)	-	(1,418)
Purchase of own shares (Note 11)	(39)	(793)	-	-	(832)
As at 30 June 2011	698	31,406	13,266	(1,857)	43,513

	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 11)	-	-	(1,393)	-	(1,393)
As at 30 June 2012	674	30,878	(2,633)	(2,377)	26,542

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 2012**

	Note	Six months ended 30 June 2012 US\$'000	Six months ended 30 June 2011 US\$'000
Net cash inflow from operating activities	12	151	433
Cash flows (used in)/from investing activities			
Interest received on cash and cash equivalents		8	29
Purchase of current asset investments	9	(2,000)	-
Purchase of fixtures, fittings and equipment	8	(8)	(10)
Net cash (used in)/from investing activities		(2,000)	19
Cash flows used in financing activities			
Repurchase of own shares	11	-	(832)
Dividends paid	11	(1,393)	(1,418)
Net cash used in financing activities		(1,393)	(2,250)
Net decrease in cash and cash equivalents		(3,242)	(1,798)
Cash and cash equivalents at 1 January 2012 and 1 January 2011		8,358	11,907
Foreign exchange (loss)/gain on cash and cash equivalents		(107)	141
Cash and cash equivalents as at 30 June 2012 and 30 June 2011		5,009	10,250

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 2012

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 2012 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 2011 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 Capital Management (Asia) Pte. Ltd.	Singapore
Argo Property Management Srl (formerly North Asset Management Srl)	Romania
North Asset Management Sarl	Luxembourg
Argo Investor Services AG	Switzerland

2. 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 2011.

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 2011.

These condensed consolidated interim financial statements were approved by the Board of Directors on 28 August 2012.

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012 (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 2012 US\$'000	Argo Capital Management (Cyprus) Ltd 2012 US\$'000	Argo Capital Management Ltd 2012 US\$'000	Argo Capital Management Property Ltd 2012 US\$'000	Other 2012 US\$'000	Six months ended 30 June 2012 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

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012 (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 2011
	2011	2011	2011	2011	2011	2011
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenues from external customers	-	3,465	1,131	1,627	-	6,223
Intersegment revenues	4,000	-	1,575	-	266	5,841
Reportable segment profit/(loss)	3,977	(2,684)	(454)	144	62	1,045
Intersegment profit/(loss)	4,000	(5,578)	1,308	-	266	(4)
Profit/(loss) excluding inter-segment transactions	(23)	2,894	(1,762)	144	(204)	1,049
Reportable segment assets	49,141	2,524	4,378	3,679	732	60,454
Reportable segment liabilities	47	742	923	499	87	2,298

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

	Six months ended 30 June 2011 US\$'000
Revenues	
Total revenues for reportable segments	12,064
Elimination of intersegment revenues	(5,841)
Group revenues	6,223
Profit or loss	
Total profit for reportable segments	1,045
Elimination of intersegment losses	4
Other unallocated amounts	121
Profit on ordinary activities before taxation	1,170
Assets	
Total assets for reportable segments	60,454
Elimination of intersegment receivables	(441)
Elimination of Company's cost of investments	(14,653)
Group assets	45,360
Liabilities	
Total liabilities for reportable segments	2,298
Elimination of intersegment payables	(451)
Group liabilities	1,847

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012 (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	5,465,000
Granted during the period	-	-
Forfeited during the period	24.0p	(50,000)
Outstanding at end of period	24.0p	5,415,000
Exercisable at end of period	24.0p	1,353,750

The options outstanding at 30 June 2012 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.

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

For the six months ended 30 June 2012 (continued)

5. TAXATION

Taxation rates applicable to the parent company and the Cypriot, UK, Singaporean, Luxembourg, Swiss, Cayman and Romanian subsidiaries range from 0% to 25% (2011: 0% to 27%).

Income Statement	Six months ended 30 June 2012 US\$'000	Six months ended 30 June 2011 US\$'000
Taxation charge for the period on Group companies	76	131

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 2012 US\$'000	Six months ended 30 June 2011 US\$'000
(Loss)/profit before tax	(15,287)	1,170
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Timing differences	(5)	-
Non-deductible expenses	8	-
Non-taxable income	(1)	-
Other adjustments	(2)	-
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	76	131
Tax charge	76	131

Balance Sheet

	30 June 2012 US\$'000	31 December 2011 US\$'000
Corporation tax payable	227	163

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

For the six months ended 30 June 2012 (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 2012 US\$'000	Six months ended 30 June 2011 US\$'000
Net (loss)/profit for the period after taxation attributable to members	(15,363)	1,039
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings per share	67,428,494	72,253,494
Effect of dilution (Note 4)	5,415,000	5,900,000
Weighted average number of ordinary shares for diluted earnings per share	72,843,494	78,153,494
	Six months ended 30 June 2012 US\$	Six months ended 30 June 2011 US\$
Earnings per share (basic)	-0.23	0.01
Earnings per share (diluted)	-0.23	0.01

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012 (continued)

7. INTANGIBLE ASSETS

	Fund management contracts US\$'000
Cost	
At 1 January 2011	18,554
Foreign exchange movement	86
At 31 December 2011	18,640
Foreign exchange movement	42
At 30 June 2012	18,682
Amortisation and impairment	
At 1 January 2011	1,939
Amortisation of Argo business intangible assets	683
Foreign exchange movement	76
At 31 December 2011	2,698
Impairment charge	14,945
Amortisation of Argo business intangible assets	317
Foreign exchange movement	62
At 30 June 2012	18,022
Net book value	
At 31 December 2011	15,942
At 30 June 2012	660

The Group tests intangible assets annually for impairment, or more frequently if there are indications that the intangible assets may be impaired. The recoverable amounts of the intangible assets that have been reviewed for impairment are separately identifiable business units within the Group. The value in use approach has been 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 have decreased significantly due to the volatility and uncertainty displayed by the global financial markets. As a result, operations have been scaled back and an impairment review of goodwill was undertaken at 30 June 2012. Following the review, the goodwill of US\$14.9 million created on the purchase of the Argo businesses has been written off during the period. At the balance sheet date the carrying value of goodwill is US\$nil (31 December 2011: US\$14.9 million).

At the balance sheet date the carrying value of the Argo Real Estate Opportunities Fund Limited management contract is US\$0.7 million (31 December 2011: US\$1.0 million), net of amortisation. The intangible asset is being amortised over 5 years and 44 days, being the remaining period of the contract from the date of acquisition. The Group has successfully renegotiated the extension of this management contract by five years from the current termination date of 31 July 2013 to 31 July 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012 (continued)

8. FIXTURES, FITTINGS AND EQUIPMENT

	Fixtures, fittings & equipment US\$'000
Cost	
At 1 January 2011	295
Additions	64
Foreign exchange movement	(2)
At 31 December 2011	357
Additions	8
Disposal	(13)
Foreign exchange movement	-
At 30 June 2012	352
Accumulated Depreciation	
At 1 January 2011	254
Depreciation charge for period	35
Foreign exchange movement	(2)
At 31 December 2011	287
Depreciation charge for period	14
Disposal	(12)
Foreign exchange movement	1
At 30 June 2012	290
Net book value	
At 31 December 2011	70
At 30 June 2012	62

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012 (continued)

9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Holding	Investment in management shares	30 June	30 June
		2012	2012
		Total cost	Fair value
		US\$'000	US\$'000
10	The Argo Fund Ltd	0	0
10	Argo Capital Investors Fund SPC	0	0
10	Argo Capital Partners Fund Ltd	0	0
100	Argo Distressed Credit Fund Ltd	0	0
100	AGSSF Holdings Ltd	0	0
1	Argo Special Situations Fund LP	0	0
		0	0

Holding	Investment in ordinary shares	31 December	31 December
		2011	2011
		Total cost	Fair value
		US\$'000	US\$'000
75,165	The Argo Fund Ltd	16,343	16,799
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	726
		17,331	17,525

Holding	Investment in management shares	31 December	31 December
		2011	2011
		Total cost	Fair value
		US\$'000	US\$'000
10	The Argo Fund Ltd	0	0
10	Argo Capital Investors Fund SPC	0	0
10	Argo Capital Partners Fund Ltd	0	0
100	Argo Distressed Credit Fund Ltd	0	0
100	AGSSF Holdings Ltd	0	0
		0	0

Holding	Investment in ordinary shares	31 December	31 December
		2011	2011
		Total cost	Fair value
		US\$'000	US\$'000
66,435	The Argo Fund Ltd	14,343	15,579
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	960
		15,331	16,539

10. TRADE AND OTHER RECEIVABLES

During the year ended 31 December 2011 the Group provided Argo Real Estate Opportunities Fund Limited ("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 AROEF is in a position to pay the outstanding liability. These amounts accrued or receivable at 30 June 2012 total US\$2,786,003 (€2,215,333) (31 December 2011: US\$2,480,165, €1,915,333). AROEF continues to meet part of this obligation to the Argo Group as and when liquidity allows.

In the audited financial statements of AROEF at 30 September 2011 and the interim report of AROEF at 31 March 2012, a material uncertainty surrounding the refinancing of bank debts was referred to in relation to the basis of preparation of the financial statements. In the view of the directors of AROEF, 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012 (continued)

11. SHARE CAPITAL

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

	30 June 2012 No.	30 June 2012 US\$'000	31 December 2011 No.	31 December 2011 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 2.0 cents (1.3 pence) per share for the year ended 31 December 2011 (31 December 2010: 1.9 cents, 1.2 pence). The final dividend for the year ended 31 December 2011 of US\$1,392,885 (GBP876,570) (31 December 2010: US\$1,418,257, GBP 873,042) was paid on 20 June 2012 to ordinary shareholders who were on the Register of Members on 25 May 2012. Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

During the six month period ended 30 June 2011 the directors authorised the repurchase of 3,910,000 shares at an average purchase price of 13.2p. No shares were repurchased during the current period.

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

	Six months ended 30 June 2011 US\$'000	Six months ended 30 June 2011 US\$'000
(Loss)/profit on ordinary activities before taxation	(15,287)	1,170
Interest income	(8)	(29)
Impairment charge	14,945	-
Amortisation of intangible assets	317	341
Depreciation	14	21
Unrealised (loss)/gain on investments	1,014	(159)
Net foreign exchange loss	2	6
(Decrease)/increase in payables	(552)	469
Increase in receivables	(282)	(1,379)
Income taxes paid	(12)	(7)
Net cash inflow from operating activities	151	433

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012 (continued)

13. 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 and Argo Real Estate Opportunities Fund Limited ("AREOF"). These investments are reflected in the accounts at a fair value of US\$16,798,536 (31 December 2011: US\$15,578,970 million) and US\$726,450 (31 December 2011: US\$959,694 million) respectively.

During the period 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 2012 total US\$2,786,003 (€2,215,333) (31 December 2011: US\$2,480,165, €1,915,333). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows.

In the audited financial statements of AREOF at 30 September 2011 and the interim report of AREOF at 31 March 2012, a material uncertainty surrounding the refinancing of bank debts was referred to in relation to the basis of preparation of the financial statements. In the view of the directors of AREOF, discussions with the banks are continuing satisfactorily and they have therefore concluded that it is appropriate to prepare those financial statements on a going concern basis.

Michael Kloter, the non-executive chairman, is also partner in a legal firm which supplies services to the Group. This firm charged US\$1,530 (six months ended 30 June 2011: US\$11,426) 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.



2020



ARGO