



ARGO

ARGO GROUP LIMITED

**UNAUDITED INTERIM REPORT AND ACCOUNTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

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

AUDITORS

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

NOMINATED ADVISER AND STOCKBROKER

Panmure Gordon (UK) Limited
Moorgate Hall
155 Moorgate
London
EC2M 6XB

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CHAIRMAN'S STATEMENT**Key Highlights for the six month period ended 30 June 2011**

- Revenues of US\$6.2 million (six months to June 2010: US\$5.6 million)
- Operating profit of US\$1.0 million (six months to June 2010: US\$1.1 million)
- Profit before tax of US\$1.2 million (six months to June 2010: US\$1.2 million)
- Operating profit and profit before tax are stated after bonus accrual of US\$1.1 million (six months to June 2010: US\$0.84 million)
- Maintained balance sheet strength: net assets of US\$43.5 million (December 2010: US\$44.4 million) after dividend payment and share buyback totalling US\$2.3 million
- Announcement of intention to purchase two shopping centres which will result in AREOF becoming the largest listed retail property company operating in Romania
- First grant of options over 5,900,000 shares to directors and employees

Business and operational review

Argo is pleased to report another profitable set of interim results for the half year ended 30 June 2011.

The Company was incorporated in February 2008 in the Isle of Man and began trading as a new group holding company on 13 June 2008. It listed on the AIM market in November 2008.

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 six 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 has a performance track record dating back to 2000.

The period under review proved quite difficult given the low level of new inflows into the Argo Funds and continuing redemptions from AGSSF.

For the six month period ended 30 June 2011 the Group generated revenues of US\$6.2 million (six months to 30 June 2010: US\$5.6 million) with management fees accounting for US\$4.9 million (six months to 30 June 2010: US\$5.1 million). The reduction in management fees arising from lower assets under management ("AUM") was entirely offset by other income comprising mainly one-off fees for directors' services. The Argo Funds have yet to regain their high-water mark.

AUM decreased during the six month period ended 30 June 2011 by 5.8% to US\$379.7 million from their level at 31 December 2010. Despite flat fund performance year to date the decrease of US\$23.5 million was mainly due to the accelerated payment of redemptions following the lifting of the gate from the Argo Global Special Situations Fund ("AGSSF").

Costs of US\$5.2 million (2010: US\$4.5 million) have remained in line with the prior period after allowing for bonus payments associated with the other income. Overall, operating profit for the period was US\$1.0 million (2010: US\$1.1 million) and earnings per share were US\$0.01 (2010: US\$0.01).

Argo has maintained its strong balance sheet with over US\$26.8 million (2010: US\$27.5 million) in net current assets. The Group has held its net asset position of US\$43.5 million (2010: US\$44.4 million) despite paying a dividend of US\$1.4 million (2010: US\$1.1 million) and buying back shares at a total cost of US\$0.83 million (2010: US\$0.41 million). The Company's investment in The Argo Fund ("TAF") continues to generate a return on assets well in excess of the prevailing rates available from bank deposits.

ARGO GROUP LIMITED

CHAIRMAN'S STATEMENT (continued)

Business and operational review (continued)

The Group employed 30 people (2010: 25) at the end of the period with the increase being attributable to changes in the contractual arrangements of existing staff. In order to retain and properly incentivise its qualified personnel, the Company intends to continue paying its employees variable compensation in the form of a cash bonus in the aggregate amount of 30%-50% of profit before tax. To further incentivise personnel and to align their interests with those of the shareholders the Group granted options over 5,900,000 shares to directors and employees under The Argo Group Limited Employee Stock Option Plan.

Fund performance

Performance across the range of Argo Funds was very mixed for the half year ended 30 June 2011. The main fund, TAF, was marginally ahead, by 1.02%, in the first six months whilst the Argo Distressed Credit Fund ("ADCF"), was slightly down, by 0.23%; by comparison, the main hedge fund indices showed a gain of around 2% for the period. On a more positive note, the lifting of the gate in AGSSF and the associated payout of deferred redemptions enabled the Fund to resume normal operations. Managing the funds in the first half of 2011 continued to be a challenge given the background of continued uncertainty over the future of the Eurozone, which has produced exchange rate volatility and sudden changes in risk appetite. Add in the recent uncertainty of the US debt ceiling and its subsequent debt downgrading and whilst, for a brief period, it has seemed that the emerging markets represented a "safe haven", market sentiment remains focused on global growth projections and fear of a "double dip".

Argo Funds

Fund	Launch date	30 June 2011 6 months	30 June 2010 6 months	2010 year total	Since inception	Annualised performance CAGR %	Sharpe ratio	Down months	AUM US\$m
The Argo Fund	Oct-00	1.02	0.37	8.55	136.65	9.14	0.78	20 of 129	106.4
Argo Global Special Situations Fund	Aug-04	-4.32	-1.29	8.21	41.93	5.79	0.54	19 of 83	16.5
AGSSF Holdings	Feb-09	5.54	-5.49	-1.50	11.98	5.04	0.69	12 of 29	127.7
Argo Distressed Credit Fund	Oct-08	-0.23	4.67	10.32	22.83	7.76	1.19	10 of 33	22.7
Argo Real Estate Opportunities Fund	Aug-06	36.90	9.47	2.65	-62.47	-26.41	N/A	24 of 60*	53.4*
Argo Capital Partners Fund	Aug-06	-15.30	-11.65	-6.70	-1.50	-0.50	N/A	N/A	53.0
Total									379.7

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

AGSSF Holdings Limited ("AHL"), comprises assets that are currently more difficult to liquidate. In the six-month period ended 30 June 2011 it delivered a year-to-date return of 5.54%, in part driven by a disposal of equity in a European IT services company. The main challenges facing the Fund remain engineering exits for defaulted loans to an Indonesian petrochemical plant and equity in a Greek telecommunications company.

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

The Argo Real Estate Opportunities Fund Limited ("AREOF"), which had been severely affected by the downturn in Romania and Ukraine, reported an upturn in investment property values in the six months to 31 March 2011. The Fund's adjusted Net Asset Value was EUR37.1 million (US\$53.4 million) as at end-March 2011, compared with EUR28.9 million (US\$35.4 million) a year ago and EUR27.1 million (US\$35.6 million) six months earlier. On 5 August 2011 AREOF announced its intention to buy the ERA Shopping Park Iasi and ERA Shopping Park Oradea from other funds advised by the Group. Following the transaction, expected to be ratified by shareholders at the end of August, AREOF will be the largest listed retail property company operating in Romania consisting of five shopping centres encompassing 400,000 square meters of gross build area. As a result of the deal, the shareholding of the other funds in AREOF will increase from 46% to 72% and the life of AREOF will be extended by five years from the current termination date of 31 July 2013 to 31 July 2018.

Meanwhile, Argo Capital Partners Funds reported a negative return of 15.3% for the six months ended 30 June 2011, compared with -11.65% for the same period in 2010. The realisation period for the Fund has been extended by one year and progress has been made in disposing of an investment in a Peruvian pharmaceutical concern, although the proceeds have yet to impact the Fund's net asset value. The sale of one other position – equity in a Russian bank – was deferred following difficult market conditions.

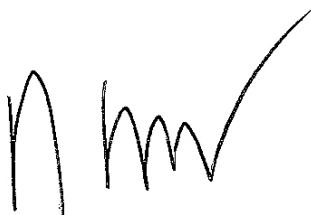
Outlook

Conditions in global financial markets are once again characterised by uncertainty amid investor anxiety about a potential slowdown in the US economy and the future of the Eurozone. This uncertainty has made attracting new investors to Argo's funds difficult. Nevertheless, the Group is carrying out a number of initiatives to make its funds in emerging markets more attractive to new investors when market conditions improve.

Following the lifting of the gate on AGSSF at the end of March and the subsequent normalisation of its operations, the board is seeking to rebuild that Fund. Although ADCF has been relatively successful in its short life, it remains small relative to its peers and thus investors in ADCF have been asked to redeem from that Fund and subscribe to AGSSF. At the time of writing investors accounting for over 90% of the capital in ADCF had agreed to the proposal, with the result that the AUM of AGSSF will be enhanced thus bolstering the marketability of the Fund.

AREOF's asset base has almost doubled after certain other funds advised by the Group injected the ERA Shopping Park Iasi and ERA Shopping Park Oradea into AREOF. As a consequence, AREOF is now the largest listed retail property fund operating in Romania. The Board believes the transaction will make AREOF more attractive to investors and expects the discount to net asset value at which the Fund's shares currently trade to narrow significantly.

Argo retains a strong balance sheet and despite the difficult conditions faced by global financial markets at present the Board is confident that the Group is well placed to benefit from an eventual global recovery and in particular the emerging markets sector.



Michael Kloter
Non-Executive Chairman

Date: 18 August 2011

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; 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.

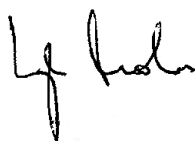
Kenneth Watterson***Non-Executive Director***

Kenneth has 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.

ARGO GROUP LIMITED**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011**

	Note	30 June 2011 US\$'000	At 31 December 2010 US\$'000
Assets			
Non-current assets			
Intangible assets	7	16,408	16,615
Fixtures, fittings and equipment	8	31	41
Loans and advances receivable		249	253
Total non-current assets		16,688	16,909
Current assets			
Investments	9	15,722	15,563
Trade and other receivables		2,694	1,312
Cash and cash equivalents		10,250	11,907
Loans and advances receivable		6	5
Total current assets		28,672	28,787
Total assets		45,360	45,696
Equity and liabilities			
Equity			
Issued share capital	10	698	737
Share premium		31,406	32,199
Revenue reserve		13,266	13,645
Foreign currency translation reserve		(1,857)	(2,139)
Total equity		43,513	44,442
Current liabilities			
Trade and other payables		1,523	1,054
Taxation payable	5	324	200
Total current liabilities		1,847	1,254
Total equity and liabilities		45,360	45,696

These interim financial statements were approved by the Board of Directors on 18 August 2011 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 2011**

	Issued share capital 2010 US\$'000	Share premium 2010 US\$'000	Revenue reserve 2010 US\$'000	Foreign currency translation reserve 2010 US\$'000	Total 2010 US\$'000
As at 1 January 2010	769	32,772	12,648	(1,670)	44,519
Total comprehensive income					
Profit for the period after taxation	-	-	1,063	(1,018)	45
Transactions with owners recorded directly in equity					
Dividends to equity holders (Note 10)	-	-	(1,126)	-	(1,126)
Purchase of own shares	(22)	(387)	-	-	(409)
As at 30 June 2010	747	32,385	12,585	(2,688)	43,029

	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 10)	-	-	(1,418)	-	(1,418)
Purchase of own shares (Note 10)	(39)	(793)	-	-	(832)
As at 30 June 2011	698	31,406	13,266	(1,857)	43,513

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 2011**

	Note	Six months ended 30 June 2011 US\$'000	Six months ended 30 June 2010 US\$'000
Net cash inflow from operating activities	11	433	409
Cash flows from/(used in) investing activities			
Interest received on cash and cash equivalents		29	30
Purchase of fixtures, fittings and equipment	8	(10)	(2)
Net cash inflow from investing activities		19	28
Cash flows used in financing activities			
Repurchase of own shares	10	(832)	(409)
Dividends paid	10	(1,418)	(1,126)
Net cash used in financing activities		(2,250)	(1,535)
Net decrease in cash and cash equivalents		(1,798)	(1,098)
Cash and cash equivalents at 1 January 2011 and 1 January 2010		11,907	13,069
Foreign exchange gain/(loss) on cash and cash equivalents		141	(588)
Cash and cash equivalents as at 30 June 2011 and 30 June 2010		10,250	11,383

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 2011

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 2011 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 2010 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 30 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
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 2010.

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 2010.

These condensed consolidated interim financial statements were approved by the Board of Directors on 18 August 2011.

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2011 (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 2011 US\$'000	Argo Capital Management (Cyprus) Ltd 2011 US\$'000	Argo Capital Management Ltd 2011 US\$'000	Argo Capital Management Property Ltd 2011 US\$'000	Other 2011 US\$'000	Six months ended 30 June 2011 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

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2011 (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 2010
	2010	2010	2010	2010	2010	2010
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenues from external customers	-	4,053	-	1,562	1	5,616
Intersegment revenues	904	-	1,640	-	228	2,772
Reportable segment profit/(loss)	597	591	(481)	452	50	1,209
Intersegment profit/(loss)	904	(2,759)	1,641	-	227	13
Profit/(loss) excluding inter-segment transactions	(307)	3,350	(2,122)	452	(177)	1,196
Reportable segment assets	44,498	4,307	5,206	4,800	492	59,303
Reportable segment liabilities	30	706	757	199	34	1,726

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

	Six months ended 30 June 2010 US\$'000
Revenues	
Total revenues for reportable segments	8,388
Elimination of intersegment revenues	(2,772)
Group revenues	5,616
Profit or loss	
Total profit for reportable segments	1,209
Elimination of intersegment profits	(13)
Other unallocated amounts	13
Profit on ordinary activities before taxation	1,209
Assets	
Total assets for reportable segments	59,303
Elimination of intersegment receivables	(318)
Elimination of Company's cost of investments	(14,548)
Group assets	44,437
Liabilities	
Total liabilities for reportable segments	1,726
Elimination of intersegment payables	(318)
Group liabilities	1,408

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2011 (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 during the period 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. There were no share option programmes in place in the prior period.

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	N/A	Nil
Granted during the period	24.0p	5,900,000
Outstanding at end of period	24.0p	5,900,000

The options outstanding at 30 June 2011 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 issued during the period was nil.

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

For the six months ended 30 June 2011 (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 27% (2010: 0% to 28%).

Income Statement	Six months ended 30 June 2011 US\$'000	Six months ended 30 June 2010 US\$'000
Taxation charge for the period on Group companies	131	146

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 2011 US\$'000	Six months ended 30 June 2010 US\$'000
Profit before tax	1,170	1,209
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Other adjustments	-	(5)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	131	151
Tax charge	131	146

Balance Sheet

	30 June 2011 US\$'000	31 December 2010 US\$'000
Corporation tax payable	324	200

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

For the six months ended 30 June 2011 (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 2011 US\$'000	Six months ended 30 June 2010 US\$'000
Net profit for the period after taxation attributable to members	1,039	1,063
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings per share	72,253,494	76,303,599
Effect of dilution (Note 4)	5,900,000	-
Weighted average number of ordinary shares for diluted earnings per share	78,153,494	76,303,599
	Six months ended 30 June 2011 US\$	Six months ended 30 June 2010 US\$'000
Earnings per share (basic)	0.01	0.01
Earnings per share (diluted)	0.01	0.01

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2011 (continued)

7. INTANGIBLE ASSETS

	Fund management contracts US\$'000
Cost	
At 1 January 2010	18,737
Foreign exchange movement	(79)
At 31 December 2010	18,658
Prior year adjustment – pre-acquisition goodwill	(104)
At 31 December 2010 - restated	18,554
Foreign exchange movement	170
At 30 June 2011	18,724
Amortisation and impairment	
At 1 January 2010	1,180
Amortisation of Argo business intangible assets	651
Foreign exchange movement	108
At 31 December 2010	1,939
Amortisation of Argo business intangible assets	341
Foreign exchange movement	36
At 30 June 2011	2,316
Net book value	
At 31 December 2010	16,615
At 30 June 2011	16,408

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.

At the balance sheet date the carrying value of goodwill was US\$14.9m (December 2010: US\$14.8 m).

The key assumptions on which the directors have based their five year discounted cash flow analysis are a pre-tax discount rate of 15% (December 2010: 15%), an inflation rate of 5% (December 2010: 5%) and a growth in assets under management (which determine management and performance fee income) of 10% to 12.5% (December 2010: 10% to 12.5%), with 3% to 3.75% (December 2010: 3% to 3.75%) of this estimated to be from annual profits. The assumption of growth in assets under management has been based on the historic performance of the funds. The calculations use cash flow projections based on actual operating results. The result of this review has been compared to the carrying value of goodwill and accordingly the directors have concluded that there is no impairment to goodwill. As an added sensitivity, if the estimated discount rate applied to the discounted cash flows had been 25% higher (December 2010: 25% higher) or the growth rate of assets under management had been 25% lower (December 2010: 25% lower) there would still have been no impairment of goodwill as the net present value of future cash flows would still have been higher than the carrying value of goodwill.

At the balance sheet date the carrying value of the Argo Real Estate Opportunities Fund Limited management contract is US\$1.5m (December 2010: US\$1.8m), 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. During the period the Group 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 2011 (continued)

8. FIXTURES, FITTINGS AND EQUIPMENT

	Fixtures, fittings & equipment US\$'000
Cost	
At 1 January 2010	299
Additions	8
Foreign exchange movement	(12)
At 31 December 2010	295
Additions	10
Foreign exchange movement	11
At 30 June 2011	316
Accumulated Depreciation	
At 1 January 2010	163
Depreciation charge for period	99
Foreign exchange movement	(8)
At 31 December 2010	254
Depreciation charge for period	21
Foreign exchange movement	10
At 30 June 2011	285
Net book value	
At 31 December 2010	41
At 30 June 2011	31

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

For the six months ended 30 June 2011 (continued)

9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

		30 June 2011	30 June 2011
Holding	Investment in management shares	Total cost US\$'000	Fair value 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

		Total cost US\$'000	Fair value US\$'000
Holding	Investment in ordinary shares		
66,435	The Argo Fund Ltd	14,343	15,722
		14,343	15,722

		31 December 2010	31 December 2010
Holding	Investment in management shares	Total cost US\$'000	Fair value 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

		Total cost US\$'000	Fair value US\$'000
Holding	Investment in ordinary shares		
66,435	The Argo Fund Ltd	14,343	15,563
		14,343	15,563

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2011 (continued)

10. SHARE CAPITAL

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

	30 June 2011 No.	30 June 2011 US\$'000	31 December 2010 No.	31 December 2010 US\$'000
Issued and fully paid				
Ordinary shares of US\$0.01 each	69,753,494	698	73,663,494	737
	69,753,494	698	73,663,494	737

The directors recommended a final dividend of 1.2p per share (2009: 1.0p) for the year ended 31 December 2010. The final dividend of US\$1,418,257 was paid on 22 June 2011 to ordinary shareholders who were on the Register of Members on 27 May 2011. Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

In addition the directors authorised the repurchase of 910,000 shares on 7 January 2011, 2,500,000 shares on 7 June 2011 and 500,000 shares on 23 June 2011 at respective purchase prices of 12.0p, 13.5p and 13.75p per share.

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

	Six months ended 30 June 2011 US\$'000	Six months ended 30 June 2010 US\$'000
Profit on ordinary activities before taxation	1,170	1,209
Interest income	(29)	(30)
Amortisation of intangible assets	341	323
Depreciation	21	52
Unrealised gains on investments	(159)	(53)
Net foreign exchange (loss)/gain	6	(77)
Increase/(decrease) in payables	469	(1,540)
(Increase)/decrease in receivables	(1,379)	537
Income taxes paid	(7)	(12)
Net cash inflow from operating activities	433	409

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2011 (continued)

12. RELATED PARTY TRANSACTIONS

74% of revenue derives from funds in which two of the Company's directors, Andreas Rialas and Kyriakos Rialas, have an influence through the provision of investment advisory services.

Michael Kloter, the non-executive chairman, is also partner in a legal firm which supplies services to the Group. This firm charged US\$11,426 (six months ended 30 June 2010: US\$5,192) for services rendered to the Group in the period.

During the period the group has advanced USD 575,000 (EUR 400,000) to Argo Real Estate Opportunities Fund Limited ("AREOF") (to whom it provides investment management services) in order to assist with its operational cash requirements.

The group has also provided AREOF with a notice of deferral, in relation to the above amount and 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 at 30 June 2011 are the above USD 575,000 advance and investment management services fees accrued or receivable of USD 1,198,000 (EUR 833,333), totalling USD 1,773,000 (EUR 1,233,000).

13. CLAIM RELATING TO LAWSUIT AGAINST FORMER GROUP COMPANY

Argo Group Limited ("Argo") had been named as an additional defendant in a lawsuit filed against Absolute Capital Management Holdings Limited (now named ACMH Limited ("ACMH")) and others. The suit had been filed in the United States District Court for the District of Colorado, by an investor in several of ACMH's investment funds. This litigation arose after the demerger of Argo from ACMH. The plaintiff, The Cascade Fund LLP ("Cascade"), had made a number of claims against ACMH and had been seeking to include Argo assets as part of the ACMH asset pool available to it by way of compensation.

In April 2010 the Colorado court dismissed Cascade's action against ACMH for failure to state a claim, following which Cascade filed a second amended complaint. On 31 March 2011 the court dismissed Cascade's second amended complaint and dismissed Cascade's claim against Argo and ACMH in its entirety.

Argo is pleased to report that Cascade did not appeal the order of the Colorado court issued on 31 March 2011 thus concluding the matter.



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