



ARGO

ARGO GROUP LIMITED

**UNAUDITED INTERIM REPORT AND ACCOUNTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

MANAGEMENT AND ADMINISTRATION

DIRECTORS

Michael Kloter
Kyriakos Rialas
Andreas Rialas
David Fisher
Kenneth Watterson

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AUDITORS

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CHAIRMAN'S STATEMENT**Key highlights for the six month period ended 30 June 2014**

- Revenues US\$3.9 million (six months to 30 June 2013: US\$4.7 million)
- Operating loss US\$0.5 million (six months to 30 June 2013: profit US\$0.8 million)
- Loss before tax US\$0.5 million (six months to 30 June 2013: profit US\$1.7 million)
- Net assets US\$28.0 million (31 December 2013: US\$28.5 million)

The Group and its investment objective

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

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

Business and operational review

This report sets out the interim results of Argo Group Limited for the half year ended 30 June 2014.

For the six month period ended 30 June 2014 the Group generated revenues of US\$3.9 million (six months to 30 June 2013: US\$4.7 million) with management fees accounting for US\$3.5 million (six months to 30 June 2013: US\$3.5 million). The Group did not generate incentive fees during the period. In the prior period to 30 June 2013 the Group derived incentive fees of US\$0.8 million 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.

Total core operating costs for the period are US\$2.7 million compared to US\$2.6 million for the six months to 30 June 2013. Costs will however trend lower in the second half of the year as a result of cost cutting initiatives implemented in the first half of 2014. Total operating costs have increased by US\$0.4 million to US\$4.4 million (six months to 30 June 2013: US\$4.0 million) after bad debt provision. During the period the Group provided against management fees of US\$1,371,000 (€1,000,000) (six months to 30 June 2013: US\$1,323,000 (€1,008,000)) due from Argo Real Estate Opportunities Fund Limited ("AREOF").

Overall, the financial statements show an operating loss for the period of US\$0.5 million (six months to 30 June 2013: profit US\$0.8 million) and a loss before tax of US\$0.5 million (six months to 30 June 2013: profit US\$1.7 million) reflecting the unrealised loss on non-current asset investments of US\$0.1 million (six months to 30 June 2013: unrealised gain US\$1.0 million).

At the period end, the Group had net assets of US\$28.0 million (31 December 2013: US\$28.5 million). The Group did not pay a dividend during the period compared to the prior period when a dividend of 2.1 cents (1.3 pence) per share was paid on 26 April 2013.

Non-current assets include investments in The Argo Fund ("TAF"), AREOF and Argo Special Situations Fund LP ("ASSF") at fair values of US\$19.0 million (31 December 2013: US\$19.1 million), US\$0.2 million (31 December 2013: US\$0.2 million) and US\$0.08 million (31 December 2013: US\$0.09 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. It should be noted, however, that the Group does not intend to and may not be able to realise these investments in the immediate future due to the illiquid nature of the assets held by these funds.

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

At the period end TAF and ASSF together owed the Group total management fees of US\$3,296,017 (31 December 2013: US\$1,817,803) after a bad debt provision of US\$1,000,000 (31 December 2013: US\$650,000). They are currently facing a short term liquidity issue which is being remedied and whilst a bad debt provision has been raised against these management fees the directors are confident that they are fully recoverable. Since the period end US\$2,388,000 of these arrears have been settled.

The Argo funds ended the period with Assets under Management ("AUM") at US\$277.9 million, 2.4% higher than at the beginning of the period. The current level of AUM remains below that required to ensure sustainable profits on a recurring management fee basis and in the absence of performance fees. This has necessitated a detailed review of the Group's cost basis and the implementation of a redundancy programme in the first quarter of the period. The Group has ensured that the operational framework remains intact and that it retains the capacity to manage additional fund inflows as and when they arise.

The number of employees of the Group at 30 June 2014 was 30 (30 June 2013: 40).

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 2014 total US\$777,090 (€569,505) (31 December 2013: 1,265,791 (€919,505)) after a bad debt provision of US\$4,093,500 (€3,000,000) (31 December 2013: US\$2,753,200 (€2,000,000)). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows. The AREOF management contract has a fixed term expiring on 31 July 2018. In November 2013 AREOF offered Argo Group Limited additional security for the continued support in the form of debentures and guarantees by underlying intermediate companies.

During the prior period Argo Group advanced US\$1,364,500 (€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. The loan is repayable on demand and accrues interest at 12%. The full amount of the loan and accrued interest remains outstanding at the period end. The Directors consider this loan to be fully recoverable on the basis that discussions with lending banks and potential purchasers of Sibiu have yielded offers in excess of the debt associated with the project banks.

Fund performance
Argo Funds

Fund	Launch date	30 June 2014 6 months	30 June 2013 6 months	2013 year total	Since inception	Annualised performance CAGR %	Sharpe ratio	Down months	AUM US\$m
The Argo Fund	Oct-00	-0.51	8.64	8.49	150.93	7.75	0.66	42 of 165	93.8
Argo Distressed Credit Fund	Oct-08	-0.28	11.88	12.64	72.98	10.62	0.85	26 of 69	26.3
Argo Special Situations Fund LP	Feb-12	-5.84	-20.65	-23.30	-29.62	-13.56	-1.15	26 of 29	88.1
Argo Local Markets Fund	Nov-12	-2.14	-5.34	-9.80	-10.34	-6.27	-1.55	14 of 20	4.5
Argo Real Estate Opportunities Fund	Aug-06	21.30	-7.09	-46.58	-92.70	-31.23	N/A	48 of 92	65.2*
Total									277.9

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

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

Emerging markets had a difficult start to the period with currencies being particularly affected. A combination of factors including bullishness about the US economy, disappointing manufacturing data in China and ongoing tensions in Ukraine combined to undermine investor confidence in the earlier part of the period. Market volatility diminished as tensions eased in Ukraine following the Russian annexation of Crimea but heightened once again by the end of the period in response to actions by separatist forces in Eastern Ukraine. Whilst emerging markets produced a positive performance overall for the six month period, Eastern European markets were negative.

Against this backdrop, fund performance was lacklustre with most of the Argo funds finishing behind at the end of the period. By comparison, the main hedge fund indices showed a positive return of 5.22% for the same period.

During the period we made very little progress in completing the previously reported non-binding agreement with Pertamina to acquire the interest in TPPI. Pertamina has not formally declined but has suggested that discussions might resume on completion of the election cycle in Indonesia. The elections took place in July and it is believed that the victory of Joko Widodo will open the door to a new reform-minded government that hopefully can implement the changes the country urgently needs. On 5 August 2014 the shareholders of TPPI unanimously passed resolutions regarding the issuance of new shares through unsecured debt to equity conversion. Consequently, TPPI is now fully authorised to execute all documents in connection with the implementation of its composition plan. The new bonds were issued in September 2014 and shares are expected to be issued in October 2014 once all formalities are complete.

In September 2014 ASSF agreed financing arrangements with a lender which will ensure that the preferred interests receive amounts equal in value to their capital contributions and the amount of the preferred return accrued since the date of issue of the interests.

The Argo Local Markets Fund ("ALMF") had a difficult first six months suffering from the broad sell-off in January in response to the US Federal Reserve's desire to reduce its quantitative easing programme. The Fund has since recovered due to uncertainties surrounding the actual date that the Federal Reserve will start to raise interest rates. The slowdown in global growth seen mostly in Europe but also in major emerging markets like Brazil, Russia and even China has raised questions about the medium term growth prospects for emerging markets and the need to adopt more accommodative policy through lower interest rates but also weaker currencies. The strength of the US dollar and further geopolitical risk has complicated the outlook for growth and the markets remain at risk of sudden bouts of risk aversion. We continue to believe that the best way to manage these risks is to invest in a portfolio of long and short interest rates and FX positions. At the end of the period ALMF showed a negative return of -2.14%.

While macroeconomic conditions continue to improve, the effects on the two core markets where AREOF operates remain mixed with subdued growth in the Romanian market and recent political and economic upheavals impacting the Ukraine market.

The reduced level of cash flow within AREOF, while being proactively managed, has resulted in breaches of terms and covenants on certain loans. This situation is being addressed by regular communication and negotiation with the lending banks with a view to restructuring the debt commitments to better align these to the current level of the AREOF Group's cash flow. While discussions with the relevant banks are ongoing to find an agreeable solution for both parties AREOF continues to enjoy the support of its banks.

AREOF's adjusted Net Asset Value was US\$65.7 million (€47.8 million) as at 31 March 2014, compared with US\$87.8 million (€68.5 million) a year earlier. The adjusted Net Asset Value per share at 31 March 2014 was US\$0.11 (€0.08) (30 March 2013: US\$0.14 (€0.11)).

CHAIRMAN'S STATEMENT (continued)

Fund performance (continued)

AREOF'S ordinary shares on AIM were suspended on 30 August 2013 following breach of a loan covenant and the subsequent loan termination by the lending bank. On 3 March 2014 AREOF delisted from AIM to allow loan restructuring discussions to proceed outside of the extensive disclosure requirements that an AIM listing entails. The valuation of Argo Group Limited's investment in AREOF has been based on the equity price prevailing at the time of the suspension with an additional 25% discount rate applied to that price.

Awards

Argo Distressed Credit Fund was ranked a top 5 hedge fund over three years in the category of Emerging Markets Global Funds by BarclayHedge at the end of March 2014.

Dividends

Argo is working towards the payment of a dividend which will ultimately depend on the success of the initiatives described above. The directors did not recommend a final dividend in respect of the year ended 31 December 2013 but intend to pay an interim dividend as soon as these initiatives are complete. Going forward, the Company intends, subject to its financial performance, to pay a final dividend each year.

Outlook

We enter the second half of the year with a degree of caution particularly given the continuing conflict in Eastern Ukraine and uncertainty as to how various markets will respond if the US Federal Reserve reduces quantitative easing. The top priority in the next six months will be to continue with our program to monetise certain of our investments. In the very near term our growth rate will be heavily influenced by the success of this program as well as events in Europe. Over the longer term the Board believes there is significant opportunity for growth in assets and profits and remains committed to the emerging markets sector.



Michael Kloter
Non-Executive Chairman
Date: 24 September 2014

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 over 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 and Da Vinci PEF II Investment Committee. 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. 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 lengthy and varied 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 2014**

	Note	Six months ended 30 June 2014 US\$'000	Six months ended 30 June 2013 US\$'000
Management fees		3,462	3,453
Incentive fees		-	803
Other income		423	459
Revenue		3,885	4,715
Legal and professional expenses		(164)	(120)
Management and incentive fees payable		(62)	(116)
Operational expenses		(572)	(612)
Employee costs		(1,663)	(1,752)
Bad debt provision	9	(1,749)	(1,323)
Foreign exchange (loss)/gain		(129)	37
Depreciation	7	(72)	(65)
Operating (loss)/profit		(526)	764
Interest income on cash and cash equivalents		115	9
Unrealised (loss)/gain on investments		(105)	958
(Loss)/profit on ordinary activities before taxation		(516)	1,731
Taxation	5	(44)	(109)
(Loss)/profit for the period after taxation attributable to members of the Company	6	(560)	1,622
Other comprehensive income			
Exchange differences on translation of foreign operations		98	(137)
Total comprehensive (loss)/income for the period		(462)	1,485
		Six months Ended 30 June 2014 US\$	Six months Ended 30 June 2013 US\$
Earnings per share (basic)	6	-0.01	0.02
Earnings per share (diluted)	6	-0.01	0.02

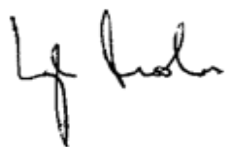
The Directors consider that all results derive from continuing activities.

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

ARGO GROUP LIMITED**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014**

	Note	30 June 2014 US\$'000	At 31 December 2013 US\$'000
Assets			
Non-current assets			
Fixtures, fittings and equipment	7	140	177
Investments	8	19,315	19,420
Loans and advances receivable	10	2,206	2,107
Total non-current assets		21,661	21,704
Current assets			
Trade and other receivables	9	4,414	3,300
Cash and cash equivalents		2,285	3,726
Loans and advances receivable	10	179	217
Total current assets		6,878	7,243
Total assets		28,539	28,947
Equity and liabilities			
Equity			
Issued share capital	11	674	674
Share premium		30,878	30,878
Revenue reserve		(1,608)	(1,048)
Foreign currency translation reserve		(1,911)	(2,009)
Total equity		28,033	28,495
Current liabilities			
Trade and other payables		406	388
Taxation payable	5	100	64
Total current liabilities		506	452
Total equity and liabilities		28,539	28,947

These interim financial statements were approved by the Board of Directors on 24 September 2014 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 2014**

	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					
Loss for the period after taxation	-	-	1,622	(137)	1,485
Transactions with owners recorded directly in equity					
Dividends to equity holders (Note 11)	-	-	(1,348)	-	(1,348)
As at 30 June 2013	674	30,878	(1,400)	(2,301)	27,851

	Issued share capital 2014 US\$'000	Share premium 2014 US\$'000	Revenue reserve 2014 US\$'000	Foreign currency translation reserve 2014 US\$'000	Total 2014 US\$'000
As at 1 January 2014	674	30,878	(1,048)	(2,009)	28,495
Total comprehensive income					
Profit for the period after taxation	-	-	(560)	98	(462)
Transactions with owners recorded directly in equity					
Dividends to equity holders (Note 11)	-	-	-	-	-
As at 30 June 2014	674	30,878	(1,608)	(1,911)	28,033

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 2014**

	Note	Six months ended 30 June 2014 US\$'000	Six months ended 30 June 2013 US\$'000
Net cash (outflow)/inflow from operating activities	12	(1,490)	619
Cash flows used in investing activities			
Interest received on cash and cash equivalents		1	9
Purchase of fixtures, fittings and equipment	7	(34)	(27)
Net cash used in investing activities		(33)	(18)
Cash flows used in financing activities			
Dividends paid	11	-	(1,348)
Net cash used in financing activities		-	(1,348)
Net decrease in cash and cash equivalents		(1,523)	(747)
Cash and cash equivalents at 1 January 2014 and 1 January 2013		3,726	5,139
Foreign exchange gain(loss) on cash and cash equivalents		82	(94)
Cash and cash equivalents as at 30 June 2014 and 30 June 2013		2,285	4,298

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 2014

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 2014 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 2013 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 Property 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 2013.

The Directors have carried out a rigorous assessment of all the factors affecting the business in deciding to adopt the going concern basis for the preparation of the accounts. They have reviewed and examined the Group's financial and other processes including the annual budgeting process and expect the Group to generate positive cash flows in the foreseeable future. On the basis of this review and the liquid assets underpinning the balance sheet the Directors are confident that the Group has adequate financial resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis for preparing the accounts.

The Group has prepared forecasts that focus on cash flow requirements for the period to September 2015. These forecasts reflect current cost patterns of the Group and take into consideration current liquidity constraints of funds under management and therefore their ability to settle management fees and other receivables (refer to notes 9 and 10). The cash flows of the Group are linked to the liquidity of the funds and the major funds of the Group (AREOF, TAF and ASSF) have significant liquidity challenges at present therefore cash inflows to the Group are linked to potential liquidity events, the timings of some of which are uncertain.

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 2013.

These condensed consolidated interim financial statements were approved by the Board of Directors on 24 September 2014.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014 (continued)

2. ACCOUNTING POLICIES (continued)

(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 2014 (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 2014
	2014	2014	2014	2014	2014	2014
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Total revenues for reportable segments	-	2,091	1,042	1,794	-	4,927
Intersegment revenues	-	-	1,042	-	-	1,042
Total profit/(loss) for reportable segments	(339)	324	(237)	(160)	-	(412)
Intersegment profit/(loss)	-	(1,046)	1,042	-	-	(4)
Total assets for reportable segments	49,173	3,891	2,570	4,298	75	60,007
Total liabilities for reportable segments	77	1,740	221	172	26	2,236

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

	Six months ended 30 June 2014 US\$'000
Revenues	
Total revenues for reportable segments	4,927
Elimination of intersegment revenues	(1,042)
Group revenues	3,885
Profit or loss	
Total loss for reportable segments	(412)
Elimination of intersegment loss	4
Other unallocated amounts	(108)
Loss on ordinary activities before taxation	(516)
Assets	
Total assets for reportable segments	60,007
Elimination of intersegment receivables	(1,869)
Elimination of Company's cost of investments	(29,599)
Group assets	28,539
Liabilities	
Total liabilities for reportable segments	2,236
Elimination of intersegment payables	(1,730)
Group liabilities	506

ARGO GROUP LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014 (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 2013
	2013	2013	2013	2013	2013	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Total revenues for reportable segments	400	2,943	1,476	1,772	-	6,591
Intersegment revenues	400	-	1,476	-	-	1,876
Total profit/(loss) for reportable segments	1,161	456	468	(306)	-	1,779
Intersegment profit/(loss)	400	(1,871)	1,476	-	-	5
Total assets for reportable segments	49,695	2,837	2,697	3,546	121	58,896
Total liabilities for reportable segments	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 profit	(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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014 (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 due to the differential in exercise price and share price.

The number and weighted average exercise price of the share options during the period is as follows:

	Weighted average exercise price	No. of share options
Outstanding at beginning of period	24.0p	4,715,000
Granted during the period	-	-
Forfeited during the period	24.0p	450,000
Outstanding at end of period	24.0p	4,265,000
Exercisable at end of period	24.0p	3,198,750

The options outstanding at 30 June 2014 have an exercise price of 24p and a weighted average contractual life of 10 years, with the fourth and final tranche of shares being exercisable on or after 1 May 2015. Outstanding share options are contingent upon the option holder remaining an employee of the Group. They expire after 10 years.

No share options were issued during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014 (continued)

5. TAXATION

Taxation rates applicable to the parent company and the Cypriot, UK, Luxembourg, Cayman and Romanian subsidiaries range from 0% to 22% (2013: 0% to 23%).

Income Statement	Six months ended 30 June 2014 US\$'000	Six months ended 30 June 2013 US\$'000
Taxation charge for the period on Group companies	44	109

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

	Six months ended 30 June 2014 US\$'000	Six months ended 30 June 2013 US\$'000
(Loss)/profit before tax	(516)	1,731
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-	-
Timing differences	3	2
Non-deductible expenses	12	7
Other adjustments	38	-
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(9)	100
Tax charge	44	109

Balance Sheet

	30 June 2014 US\$'000	31 December 2013 US\$'000
Corporation tax payable	100	64

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014 (continued)

6. EARNINGS PER SHARE

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

	Six months ended 30 June 2014 US\$'000	Six months ended 30 June 2013 US\$'000
Net (loss)/profit for the period after taxation attributable to members	(560)	1,622
	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)	4,265,000	5,415,000
Weighted average number of ordinary shares for diluted earnings per share	71,693,494	72,843,494
	Six months ended 30 June 2014 US\$	Six months ended 30 June 2013 US\$
Earnings per share (basic)	-0.01	0.02
Earnings per share (diluted)	-0.01	0.02

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014 (continued)

7. FIXTURES, FITTINGS AND EQUIPMENT

	Fixtures, fittings & equipment US\$'000
Cost	
At 1 January 2013	372
Additions	46
Disposals	(20)
Foreign exchange movement	10
At 31 December 2013	408
Additions	34
Disposal	(167)
Foreign exchange movement	9
At 30 June 2014	284
Accumulated Depreciation	
At 1 January 2013	151
Depreciation charge for period	89
Disposal	(16)
Foreign exchange movement	7
At 31 December 2013	231
Depreciation charge for period	72
Disposal	(167)
Foreign exchange movement	8
At 30 June 2014	144
Net book value	
At 31 December 2013	177
At 30 June 2014	140

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014 (continued)

8. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Holding	Investment in management shares	30 June	30 June
		2014	2014
		Total cost	Fair value
		US\$'000	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	31 December	31 December
		2013	2013
		Total cost	Fair value
		US\$'000	US\$'000
75,165	The Argo Fund Ltd	16,343	19,011
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	223
115	Argo Special Situations Fund LP	115	81
		17,446	19,315

Holding	Investment in management shares	31 December	31 December
		2013	2013
		Total cost	Fair value
		US\$'000	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	31 December	31 December
		2013	2013
		Total cost	Fair value
		US\$'000	US\$'000
75,165	The Argo Fund Ltd	16,343	19,109
10,899,021	Argo Real Estate Opportunities Fund Ltd	988	225
115	Argo Special Situations Fund LP	115	86
		17,446	19,420

The Argo Fund Limited and Argo Special Situations Fund LP hold concentrated portfolios of Level 3 assets that are valued based on inputs other than quoted prices in active markets. Inherently the assumptions backing these valuations are subject to additional risks that can have a positive or negative impact on valuation. The audit reports for the years ended 30 June 2013 and 31 December 2013, respectively, for these funds were modified in respect of the investment portfolios.

During the prior period, Argo Real Estate Opportunities Fund Limited ("AREOF") was suspended from trading on AIM, and subsequently delisted on 3 March 2014 as a result of default notices on its loans creating uncertainty. The Group's investment in AREOF is carried at a discount to the last quoted bid price on AIM from August 2013 at the period end. This investment is classified as level 3 under IFRS fair value hierarchy reflecting the non-market observable inputs to its valuation.

The investments held by the Group have been made in support of the Group's funds under management and in support of their liquidity profiles and as such they may not be realisable in the immediate future. The valuations are subject to uncertain events, for example, liquidity events or debt refinancing that may not be wholly within the Group's control.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014 (continued)

9. TRADE AND OTHER RECEIVABLES

The directors consider that the carrying amount of trade and other receivables approximates their fair value. All trade receivable balances are recoverable within one year from the balance sheet date except as disclosed below.

The Group has provided Argo Real Estate Opportunities Fund Limited (“AREOF”) with a notice of deferral in relation to the amounts due from the provision of investment management services, under which it will not demand payment of such amounts until the Group judges that AROEF is in a position to pay the outstanding liability. These amounts accrued or receivable at 30 June 2014 total US\$777,090 (€569,505) (31 December 2013: US\$1,265,791, €919,505) after a bad debt provision of US\$4,093,500 (€3,000,000) (31 December 2013: US\$2,753,200, €2,000,000). AROEF continues to meet part of this obligation to the Argo Group as and when liquidity allows. In November 2013 AROEF offered Argo Group Limited additional security for the continued support in the form of debentures and guarantees by underlying intermediate companies. In the Directors’ view these amounts are fully recoverable although they have concluded that it would not be appropriate to continue to recognise income without provision from these investment management services as the timing of such receipts may be outside the control of the Company and AROEF.

At the period end The Argo Fund Limited and Argo Special Situations Fund LP together owed the Group total management fees of US\$3,296,017 (31 December 2013: US\$1,817,803) after a bad debt provision of US\$1,000,000 (31 December 2013: US\$650,000). Both Funds have a substantial asset base with very few liabilities. They are currently facing a short term liquidity issue which is being remedied and whilst a bad debt provision has been raised against these management fees the directors are confident that they are fully recoverable. Since the period end US\$2,388,000 of these arrears have been settled.

In the audited financial statements of AROEF at 30 September 2013 and the interim report of AROEF at 31 March 2014, 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 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.

10. LOANS AND ADVANCES RECEIVABLE

During the prior period Argo Group advanced US\$1,364,500 (€1,000,000) to Bel Rom Trei (“Bel Rom”), an AROEF 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 addressed 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 and accrued interest remains outstanding at the year end. The Directors consider this loan to be fully recoverable on the basis that conditional offers to buy the centre have been received that indicate a value in excess of the debt attached to the project. Notwithstanding its repayable on demand terms, the Directors have classified this amount as non-current within the financial statements as it is not their intention to demand repayment in the immediate future and it is unlikely that Bel Rom will repay the amount in the next 12 months even if it were demanded.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014 (continued)

11. SHARE CAPITAL

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

	30 June 2014 No.	30 June 2014 US\$'000	31 December 2013 No.	31 December 2013 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 did not recommend the payment of a final dividend for the year ended 31 December 2013 and do not recommend an interim dividend in respect of the current period. The final dividend for the year ended 31 December 2012 of US\$1,348,287 (GBP876,570) 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.

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

	Six months ended 30 June 2014 US\$'000	Six months ended 30 June 2013 US\$'000
(Loss)/profit on ordinary activities before taxation	(516)	1,731
Interest income	(115)	(9)
Depreciation	72	65
Unrealised loss/(gain) on investments	105	(958)
Net foreign exchange loss/(gain)	129	(37)
Increase/(decrease) in payables	18	(34)
Increase in receivables, loans and advances	(1,175)	(45)
Income taxes paid	(8)	(94)
Net cash (outflow)/inflow from operating activities	(1,490)	619

13. FAIR VALUE HIERARCHY

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level of the fair value hierarchy (note 2).

	At 30 June 2014			
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total US\$ '000
Financial assets at fair value through profit or loss	-	-	19,315	19,315
	At 31 December 2013			
	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total US\$ '000
Financial assets at fair value through profit or loss	-	19,195	225	19,420

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014 (continued)

14. 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\$19,011,287, US\$223,076 and US\$80,702 respectively.

The Group has provided AREOF with a notice of deferral in relation to the amounts due from the provision of investment management services, under which it will not demand payment of such amounts until the Group judges that AREOF is in a position to pay the outstanding liability. These amounts accrued or receivable at 30 June 2014 total US\$777,090 (€569,505) (31 December 2013: US\$1,265,791, €919,505) after a bad debt provision of US\$4,093,500 (€3,000,000) (31 December 2013: US\$2,753,200, €2,000,000). AREOF continues to meet part of this obligation to the Argo Group as and when liquidity allows. In November 2013 AREOF offered Argo Group Limited additional security for the continued support in the form of debentures and guarantees by underlying intermediate companies.

In the audited financial statements of AREOF at 30 September 2013 and the interim report of AREOF at 31 March 2014, 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 prior period Argo Group advanced US\$1,364,500 (€1,000,000) to Bel Rom Trei Srl ("Bel Rom"), 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 and accrued interest remains outstanding at the period end. The Directors consider this loan to be fully recoverable on the basis that conditional offers to buy the centre have been received that indicate a value in excess of the debt attached to the project. Notwithstanding its repayable on demand terms, the Directors have classified this amount as non-current within the financial statements as it is not their intention to demand repayment in the immediate future and it is unlikely that Bel Rom will repay the amount in the next 12 months even if it were demanded.

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



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