



AMERICAN OVERSEAS GROUP LIMITED

SIX MONTH REPORT

JUNE 30, 2012

American Overseas Group Limited

**Unaudited Consolidated Financial Statements
For the Six Month Period Ended
June 30, 2012**

American Overseas Group Limited
Consolidated Balance Sheets
(Unaudited)

	June 30, 2012	December 31 2011
ASSETS		
Investments: Fixed-maturity securities held as available for sale, at fair value (amortized cost of \$171,904,872 and \$246,914,146)	\$ 184,900,378	\$ 259,809,019
Short term investments, at fair value	24,999,481	14,999,875
Cash and cash equivalents	8,283,961	13,253,185
Restricted cash	119,288,026	49,428,723
Accrued investment income	1,352,286	1,593,075
Reinsurance balances receivable, net	—	13,505,088
Recoverables on paid losses	6,564,938	6,157,961
Deferred policy acquisition costs	38,526,784	41,889,959
Deferred expenses	389,764	433,310
Other assets	392,245	153,197
Total assets	\$ 384,697,863	\$ 401,223,392
LIABILITIES AND EQUITY		
Liabilities:		
Losses and loss expense reserve	\$ 62,243,093	\$ 80,997,653
Unearned premiums	102,713,471	110,187,189
Reinsurance balances payable, net	7,758,149	—
Accounts payable and accrued liabilities	526,199	1,121,133
Derivative liabilities	57,598,017	48,303,395
Redeemable Series A preference shares	59,700,000	59,700,000
Total liabilities	290,538,929	300,309,370
Shareholders' equity:		
Common shares	2,648,077	2,643,116
Additional paid-in capital	231,524,177	231,467,675
Accumulated other comprehensive income	12,995,506	12,894,873
Retained deficit	(160,019,681)	(153,102,497)
Total shareholders' equity	87,148,079	93,903,167
Noncontrolling interest – Class B preference shares of subsidiary	7,010,855	7,010,855
Total equity	94,158,934	100,914,022
Total liabilities and equity	\$ 384,697,863	\$ 401,223,392

American Overseas Group Limited
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Net premiums earned	\$ 5,369,126	\$ 3,611,752	\$ 8,395,180	\$ 8,024,334
Change in fair value of credit derivatives:				
Realized gains (losses) and other settlements	673,781	(1,473,491)	1,247,576	(18,884)
Unrealized gains (losses)	(3,033,787)	118,118	(9,367,768)	1,124,404
Net change in fair value of credit derivatives	(2,360,006)	(1,355,373)	(8,120,192)	1,105,520
Net investment income	1,884,022	2,350,360	3,962,186	4,748,243
Net realized gains on sale of investments	—	8,409	—	693,851
Total other-than-temporary impairment losses	—	—	—	—
Portion of impairment losses recognized in other comprehensive income (loss)	—	—	—	—
Net other-than-temporary impairment losses (recognized in earnings)	—	—	—	—
Foreign currency gains (losses)	(285,702)	199,924	(96,512)	511,599
Total revenues	4,607,440	4,815,072	4,140,662	15,083,547
Expenses:				
Loss and loss adjustment expenses	3,380,674	3,120,616	4,119,627	3,564,412
Acquisition expenses	2,304,887	1,555,823	3,802,911	3,455,986
Operating expenses	1,375,886	1,669,332	3,135,308	3,568,764
Total expenses	7,061,447	6,345,771	11,057,846	10,589,162
Net income (loss)	\$ (2,454,007)	\$ (1,530,699)	\$ (6,917,184)	\$ 4,494,385
Net income (loss) per common share:				
Basic	\$ (0.93)	\$ (0.58)	\$ (2.62)	\$ 1.70
Diluted	\$ (0.93)	\$ (0.58)	\$ (2.61)	\$ 1.70
Weighted-average number of common shares outstanding:				
Basic	2,647,178	2,642,641	2,645,210	2,641,187
Diluted	2,651,411	2,642,641	2,647,772	2,649,699

* Shares outstanding and net income per share as of and for the period ending June 30, 2012 reflects the effects of a 1 for 10 reverse stock split on November 8, 2011. For comparative purposes, the outstanding shares along with the net income per common share for the periods ending June 30, 2011, have been adjusted to reflect the change in capital structure as if the reverse stock split had occurred in those periods.

American Overseas Group Limited
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	\$ (2,454,007)	\$ (1,530,699)	\$ (6,917,184)	\$ 4,494,385
Other comprehensive income				
Change in unrealized fair value of investments	(76,498)	1,510,760	100,633	905,457
Less: Reclassification adjustment for net realized gains included in net income (loss)	—	(8,409)	—	(693,851)
Less: Net other-than-temporary impairment losses (recognized in earnings)	—	—	—	—
Portion of impairment losses recognized in other comprehensive income	—	—	—	—
Other comprehensive income	(76,498)	1,502,351	100,633	211,606
Comprehensive income (loss) for the period	\$ (2,530,505)	\$ (28,348)	\$ (6,816,551)	\$ 4,705,991

American Overseas Group Limited
Consolidated Statements of Equity and Retained Deficit
(Unaudited)

	Share capital	Noncontrolling interest in subsidiary	Additional paid-in capital	Accumulated other comprehensive income	Retained deficit	Total
Balance, December 31, 2011	\$ 2,643,116	\$ 7,010,855	\$ 231,467,675	\$ 12,894,873	\$ (153,102,497)	\$ 100,914,022
Share issuance	4,961	—	(4,961)	—	—	—
Share based compensation	—	—	61,463	—	—	61,463
Net loss	—	—	—	—	(6,917,184)	(6,917,184)
Net change in unrealized gains and losses on available-for-sale securities	—	—	—	100,633	—	100,633
Balance, June 30, 2012	\$ 2,648,077	\$ 7,010,855	\$ 231,524,177	\$ 12,995,506	\$ (160,019,681)	\$ 94,158,934

See Accompanying Notes to Consolidated Financial Statements.

American Overseas Group Limited
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended	
	June 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss) for the period	\$ (6,917,184)	\$ 4,494,385
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net realized (gains) on sale of investments	—	(693,851)
Foreign currency (gains) losses on revaluation	96,512	(503,464)
Net unrealized (gains) losses on credit derivatives	9,367,768	(1,124,404)
Depreciation and amortization	106,888	56,759
Amortization of bond premium and discount	218,876	187,333
Share based compensation	61,463	72,335
Changes in assets and liabilities:		
Accrued investment income	240,789	125,651
Reinsurance balances receivable	13,408,576	3,840,058
Recoverables on paid losses	(406,977)	12,787,602
Deferred policy acquisition costs	3,363,175	5,472,305
Other assets	(286,548)	(370,980)
Losses and loss adjustment expenses	(18,754,560)	8,024,954
Unearned premiums	(7,473,718)	(15,061,660)
Reinsurance balances payable	7,758,149	—
Derivative liability	(73,146)	491,110
Accounts payable, accrued liabilities and interest payable	(594,934)	(497,352)
Net cash provided by operating activities	115,129	17,300,781
Cash flows from investing activities:		
Purchases of investments	—	(39,130,303)
Proceeds from sales of investments	—	32,886,888
Proceeds on maturities of investments	74,785,158	11,902,648
Net purchases of short term investments	(9,994,365)	—
Net change in restricted cash	(69,859,303)	(9,914,522)
Purchases of fixed assets	(15,843)	—
Net cash used in investing activities	(5,084,353)	(4,255,289)
Net increase (decrease) in cash and cash equivalents	(4,969,224)	13,045,492
Cash and cash equivalents – Beginning of year	13,253,185	5,718,195
Cash and cash equivalents – End of period	\$ 8,283,961	\$ 18,763,687

See Accompanying Notes to Consolidated Financial Statements.

American Overseas Group Limited

Explanatory notes

The interim unaudited consolidated financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (“US GAAP”). These statements should be read in conjunction with the audited consolidated financial statements and notes as of and for the period ended December 31, 2011 for American Overseas Group Limited which are posted on the Company’s website and can be found at www.aoreltd.com under “Investor Information.”

Subsequent events

The Company’s operating subsidiary, American Overseas Reinsurance Company Limited (“AORE”), entered into a Settlement, Commutation and Release Agreement, dated as of August 20, 2012 (the “Agreement”), which, if consummated, would commute (the “Commutation”) the entire portfolio of financial guaranty reinsurance business it has assumed from Financial Guaranty Insurance Company (“FGIC”). A rehabilitation proceeding for FGIC pursuant to Article 74 of the New York Insurance Law is currently pending before the Supreme Court of the State of New York (the “Court”), and the effectuation of such Commutation is subject to approval of the Agreement by the Court. Approval of the Agreement is within the Court’s discretion, and no assurance can be given that such approval will be granted or when it will be granted. If the Court approves the Agreement, AORE will make a commutation payment to FGIC in the amount of \$64.8 million and the Commutation will become effective upon FGIC’s receipt of such payment. The aggregate outstanding par value of the reinsurance portfolio proposed to be commuted was \$4.4 billion as of June 30, 2012. The Commutation would have resulted in a GAAP loss of approximately \$13.0 million if it had been completed at June 30, 2012.

Security Ownership of Executive Officers and Directors

Pursuant to Regulation 6.9(2)(x)(a) and (b) of Section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests of all directors and executive officers of the Company in the common shares of the Company as at June 30, 2012, was 102,316 shares or 4% of the common shares outstanding.

As of June 30, 2012, two indirect shareholders in, who are also directors of, an affiliated company which owns approximately 42.8% of the outstanding common shares of AOG, also serve as directors of AOG and AORE.

Equity Compensation of Directors

The table below sets forth the aggregate number of shares underlying option awards and restricted stock unit (“RSU”) awards outstanding for each director as of June 30, 2012 (other than Mr. Steel, whose equity awards are set forth in “Equity Compensation of Executive Officers” below). All information in the equity compensation tables below includes the effects of the 1 for 10 reverse stock split which was effected on November 8, 2011.

Name	Shares Underlying Options at June 30, 2012 (Outstanding)	Shares Underlying Options at June 30, 2012 (Vested and Exercisable)	RSUs: That Have Not Vested
James Zech.....	2,953	-	1,820
Debra J. Roberts.....	3,857	-	3,246
Clement S. Dwyer, Jr.....	7,136	1,880	4,612
Steven J. Tynan	7,136	1,880	4,612

Share options granted to the directors under our 2001 Stock Option Plan prior to 2006 vested quarterly over a three year period. Share Options granted to directors beginning in 2006 under the 2006 Equity Plan vest in four equal annual installments on the first four anniversaries of the date of grant. RSUs vest annually in equal installments over a four-year period.

Equity Compensation of Executive Officers

The following table shows equity awards granted to officers of the Company outstanding at June 30, 2012. All information in the equity compensation tables below includes the effects of the 1 for 10 reverse stock split which was effected on November 8, 2011:

Name	Option Awards				RSU Awards	
	Number of Common Shares Underlying Unexercised Options Exercisable	Number of Common Shares Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares that Have Not Vested	Market Value of Shares That Have Not Vested ⁽¹⁾
David K. Steel	14,950	—	\$120.30	6/30/2015	—	—
	3,793	—	\$134.50	5/2/2013	—	—
	4,999	—	\$162.00	2/20/2014	—	—
	—	—	—	—	990	\$6,930
	19,850	—	\$14.50	3/5/2015	—	—
	380	1,141	\$15.20	5/1/2016	—	—
	—	2,615	\$9.15	4/26/2019	—	—
	—	—	—	—	2,188	\$15,316

(1) Based on the closing price of \$7 per share on June 29, 2012, the last business day of June 2012.

Options granted prior to May 2006 were awarded under our 2001 Stock Option Plan and vest in 8.33% increments at the end of each quarter, beginning with the quarter in which the grant occurred. Our 2001 Stock Option Plan was terminated in May 2006, except as to awards that were already outstanding at that date. No further awards will be granted under our 2001 Stock Option Plan.

Options granted beginning in May 2006 were awarded under our 2006 Equity Plan, and vest in four equal installments on the first four anniversaries of the date of grant. RSUs vest annually in equal installments over a four-year period.

The following table shows options exercised and RSUs vested during 2012:

Name	Option Awards		RSU Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
David K. Steel	—	—	330	\$2,987

American Overseas Group Limited Corporate Information

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Investor Information

Information about American Overseas Group Limited, including all quarterly earnings releases and reports, can be accessed via our website at www.aoreltd.com under Investor Information.

Requests for copies of the American Overseas Group Limited 2012 quarterly reports may be made by contacting the Secretary of American Overseas Group Limited at the Corporate Headquarters address above or info@aoreltd.com.

Exchange Listing

American Overseas Group Limited's common shares are listed on the Bermuda Stock Exchange (BSX) located at:

30 Victoria Street
Hamilton, Bermuda
441-292-7212 or -7213
www.bsx.com

Transfer Agent

Computershare

Telephone Number:
1-877-296-3711
1-610-382-7833 (Outside the U.S.)
1-888-269-5221 (Hearing Impaired - TDD Phone)

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Independent Registered Auditors

Deloitte & Touche Ltd.