



AMERICAN OVERSEAS GROUP LIMITED

NINE MONTH REPORT

SEPTEMBER 30, 2012

American Overseas Group Limited

**Unaudited Consolidated Financial Statements
For the Nine Month Period Ended
September 30, 2012**

American Overseas Group Limited
Consolidated Balance Sheets
(Unaudited)

	September 30, 2012	December 31 2011
ASSETS		
Investments: Fixed-maturity securities held as available for sale, at fair value (amortized cost of \$172,875,164 and \$246,914,146)	\$ 186,004,710	\$ 259,809,019
Short term investments, at fair value	—	14,999,875
Cash and cash equivalents	16,525,556	13,253,185
Restricted cash	115,052,901	49,428,723
Accrued investment income	1,234,386	1,593,075
Reinsurance balances receivable, net	11,022,385	13,505,088
Recoverables on paid losses	6,765,702	6,157,961
Deferred policy acquisition costs	36,959,963	41,889,959
Deferred expenses	367,752	433,310
Other assets	347,216	153,197
Total assets	\$ 374,280,571	\$ 401,223,392
LIABILITIES AND EQUITY		
Liabilities:		
Losses and loss expense reserve	\$ 61,586,929	\$ 80,997,653
Unearned premiums	98,746,115	110,187,189
Accounts payable and accrued liabilities	609,640	1,121,133
Derivative liabilities	53,243,464	48,303,395
Redeemable Series A preference shares	59,700,000	59,700,000
Total liabilities	273,886,148	300,309,370
Shareholders' equity:		
Common shares	2,671,070	2,643,116
Additional paid-in capital	231,763,143	231,467,675
Accumulated other comprehensive income	13,129,546	12,894,873
Retained deficit	(154,180,191)	(153,102,497)
Total shareholders' equity	93,383,568	93,903,167
Noncontrolling interest – Class B preference shares of subsidiary	7,010,855	7,010,855
Total equity	100,394,423	100,914,022
Total liabilities and equity	\$ 374,280,571	\$ 401,223,392

American Overseas Group Limited
Consolidated Statements of Operations
(Unaudited)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:				
Net premiums earned	\$ 3,797,268	\$ 4,073,105	\$ 12,192,448	\$ 12,097,439
Change in fair value of credit derivatives:				
Realized gains and other settlements	598,626	791,067	1,846,202	772,183
Unrealized gains (losses)	4,180,233	33,376,697	(5,187,535)	34,501,101
Net change in fair value of credit derivatives	4,778,859	34,167,764	(3,341,333)	35,273,284
Net investment income	1,562,378	2,424,484	5,524,564	7,172,727
Net realized gains on sale of investments	355,347	1,512,325	355,347	2,206,176
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)	104,739	(519,351)	8,227	(7,752)
Total revenues	10,598,591	41,658,327	14,739,253	56,741,874
Expenses:				
Loss and loss adjustment expenses	1,665,349	9,290,987	5,784,976	12,855,399
Acquisition expenses	1,540,470	3,744,639	5,343,381	7,200,625
Operating expenses	1,553,283	1,688,822	4,688,590	5,257,586
Total expenses	4,759,102	14,724,448	15,816,947	25,313,610
Net income (loss)	\$ 5,839,489	\$ 26,933,879	\$ (1,077,694)	\$ 31,428,264
Net income (loss) per common share:				
Basic	\$ 2.20	\$ 10.19	\$ (0.41)	\$ 11.90
Diluted	\$ 2.20	\$ 10.17	\$ (0.41)	\$ 11.86
Weighted-average number of common shares outstanding:				
Basic	2,654,259	2,643,051	2,648,248	2,641,816
Diluted	2,654,538	2,648,037	2,650,049	2,649,152

* Shares outstanding and net income per share as of and for the period ending September 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 September 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)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Net income (loss)	\$ 5,839,489	\$ 26,933,879	\$ (1,077,694)	\$ 31,428,264
Other comprehensive income				
Change in unrealized fair value of investments	489,387	3,559,405	590,020	4,464,862
Less: Reclassification adjustment for net realized gains included in net income (loss)	(355,347)	(1,512,325)	(355,347)	(2,206,176)
Less: Net other-than-temporary impairment losses (recognized in earnings)	—	—	—	—
Portion of impairment losses recognized in other comprehensive income	—	—	—	—
Other comprehensive income	<u>134,040</u>	<u>2,047,080</u>	<u>234,673</u>	<u>2,258,686</u>
Comprehensive income (loss) for the period	<u>\$ 5,973,529</u>	<u>\$ 28,980,959</u>	<u>\$ (843,021)</u>	<u>\$ 33,686,950</u>

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	27,954	—	(27,954)	—	—	—
Share based compensation	—	—	323,422	—	—	323,422
Net loss	—	—	—	—	(1,077,694)	(1,077,694)
Net change in unrealized gains and losses on available-for-sale securities	—	—	—	234,673	—	234,673
Balance, September 30, 2012	\$ 2,671,070	\$ 7,010,855	\$ 231,763,143	\$ 13,129,546	\$ (154,180,191)	\$ 100,394,423

See Accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss) for the period	\$ (1,077,694)	\$ 31,428,264
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net realized gains on sale of investments	(355,347)	(2,206,176)
Foreign currency (gains) losses on revaluation	(140,368)	12,314
Net unrealized (gains) losses on credit derivatives	5,187,535	(34,501,101)
Depreciation and amortization	106,888	82,049
Amortization of bond premium and discount	482,149	312,005
Share based compensation	323,422	101,286
Changes in assets and liabilities:		
Accrued investment income	358,689	61,502
Reinsurance balances receivable	2,623,072	4,270,312
Recoverables on paid losses	(607,741)	13,167,698
Deferred policy acquisition costs	4,929,996	9,655,279
Other assets	(220,824)	(182,237)
Losses and loss adjustment expenses	(19,410,724)	15,775,975
Unearned premiums	(11,441,074)	(20,262,520)
Derivative liability	(247,466)	304,564
Accounts payable, accrued liabilities	(511,493)	(205,288)
Net cash (used in) provided by operating activities	(20,000,980)	17,813,926
Cash flows from investing activities:		
Purchases of investments	(52,735,906)	(39,885,148)
Proceeds from sales of investments	46,672,330	35,378,043
Proceeds on maturities of investments	79,970,773	16,521,736
Net purchases of short term investments	15,004,857	—
Net change in restricted cash	(65,624,178)	(15,842,758)
Purchases of fixed assets	(14,525)	—
Net cash provided by (used in) investing activities	23,273,351	(3,828,127)
Net increase in cash and cash equivalents	3,272,371	13,985,799
Cash and cash equivalents – Beginning of year	13,253,185	5,718,195
Cash and cash equivalents – End of period	\$ 16,525,556	\$ 19,703,994

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

FGIC Commutation

On October 22, 2012 the Company completed a commutation entered into by its operating subsidiary, American Overseas Reinsurance Company Limited (“AORE”), and Financial Guaranty Insurance Company (“FGIC”). Pursuant to the commutation, AORE made a commutation payment to FGIC in the amount of \$64.8 million in return for a full commutation and release of all of AORE’s obligations to FGIC. The FGIC commutation would have resulted in a GAAP loss of approximately \$13.7 million if it had been completed at September 30, 2012.

Re-domestication

On December 7, 2012 AORE completed its re-domestication from Bermuda to Barbados. In connection with the re-domestication, the Barbados Financial Services Commission (the “Barbados FSC”) licensed AORE as an Exempt Insurance Company in accordance with the Barbados Exempt Insurance Act 1983. AORE has engaged the services of a local Barbados management company and established a principal representative in Barbados. The Barbados FSC also approved AORE’s business plan to begin writing property/casualty reinsurance while continuing to run-off its existing financial guaranty reinsurance portfolio.

Property/Casualty Reinsurance

AORE has significantly deleveraged its balance sheet over the past four years through a series of commutations that have reduced the par value of the securities it has reinsured from \$48.7 billion in 2008 to \$9.8 billion as of September 30, 2012, after giving effect to the FGIC commutation on a pro-forma basis. While AORE remains willing to entertain further commutations, such transactions will only be pursued on economically acceptable terms. Accordingly, there can be no assurance that the run-off of its financial guaranty portfolio will be completed in a time frame that is any faster than the scheduled pay-down of its reinsured obligations. Due to the nature of some of the credits in the financial guaranty portfolio, this process could conceivably run into the next century.

The Company will seek to enhance shareholder value by re-activating AORE in a way that produces incremental cash flow and earnings. Accordingly, AORE intends to enter the property/casualty reinsurance business before year-end, initially focusing on short-tail, low-volatility, non-catastrophe exposed lines that fit well with the long-tail run-off of the remaining financial guaranty portfolio.

Orpheus Group Ltd. (collectively with its wholly-owned subsidiaries, “Orpheus”) owned 43.21% of the outstanding common shares of AOG as of September 30, 2012. Orpheus has actively engaged in the property/casualty reinsurance business for over ten years. The Company views its affiliation with Orpheus as strategically important and advantageous to AORE’s plan to enter the property/casualty reinsurance business. AORE plans to leverage Orpheus’ long-standing customer relationships, underwriting expertise and operational infrastructure, among other potential benefits. Reid Street Services Ltd. (“RSSL”), a wholly-owned subsidiary of Orpheus which will continue to provide management services to both AOG and AORE, also provides management, underwriting, surveillance and operational support to Orpheus’ operating subsidiaries engaged in the property/casualty reinsurance business. The Company expects that its affiliation with Orpheus will enable AORE to begin writing new business immediately at a modest incremental cost. AORE plans to build its property/casualty book prudently as it emerges from run-off.

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 September 30, 2012, was 102,580 shares or 4% of the common shares outstanding.

As of September 30, 2012, two indirect shareholders in, who are also directors of, an affiliated company which owns approximately 43.21% 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 September 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 September 30, 2012 (Outstanding)	Shares Underlying Options at September 30, 2012 (Vested and Exercisable)	RSUs: That Have Not Vested
James Zech.....	2,953	-	1,820
Debra J. Roberts.....	3,857	310	2,982
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 September 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	\$11,405
	19,850	—	\$14.50	3/5/2015	—	—
	380	1,141	\$15.20	5/1/2016	—	—
	—	2,615	\$9.15	4/26/2019	—	—
	—	—	—	—	2,188	\$25,206

(1) Based on the closing price of \$11.52 per share on September 28, 2012, the last business day of September 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 ⁽²⁾
David K. Steel	—	—	330	\$2,987

(2) Based on the closing price of \$9.05 per share on April 28, 2012, the day of vesting.

American Overseas Group Limited Corporate Information

Maiden House, 1st Floor
131 Front Street
Hamilton HM 12 Bermuda
441-296-6501
www.aoreltd.com

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)

Mailing Address:

Computershare

480 Washington Boulevard

Jersey City, New Jersey 07310-1900

USA

Web Address: <http://www.bnymellon.com/shareowner/equityaccess>

Independent Registered Auditors

Deloitte & Touche Ltd.