



AMERICAN OVERSEAS GROUP LIMITED

THREE MONTH REPORT

MARCH 31, 2013

American Overseas Group Limited
Consolidated Balance Sheets
(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Investments: Fixed-maturity securities held as available for sale, at fair value (amortized cost 2013: \$159,022,693; 2012: \$154,334,126)	\$ 169,427,646	\$ 165,758,285
Other investments, at fair value (cost 2013: \$8,500,000; 2012 \$nil)	8,594,873	-
Cash and cash equivalents	24,374,747	36,317,205
Restricted cash	41,997,279	45,138,700
Accrued investment income	1,109,128	1,189,414
Reinsurance balances receivable, net	11,899,757	11,561,369
Funds withheld	4,199,776	1,533,086
Recoverables on paid losses	7,479,008	6,686,859
Deferred policy acquisition costs	27,938,345	28,775,647
Deferred expenses	324,206	345,740
Other assets	638,224	90,240
Total assets	\$ 297,982,989	\$ 297,396,545
LIABILITIES AND EQUITY		
Liabilities:		
Losses and loss expense reserve	\$ 21,872,786	\$ 22,246,663
Unearned premiums	69,931,784	72,538,525
Accounts payable and accrued liabilities	633,222	698,507
Derivative liabilities	83,464,115	65,213,710
Redeemable Series A preference shares	59,700,000	59,700,000
Total liabilities	235,601,907	220,397,405
Shareholders' equity:		
Common shares	2,706,609	2,676,608
Additional paid-in capital	232,180,613	231,891,122
Accumulated other comprehensive income	10,499,826	11,424,159
Retained deficit	(190,016,821)	(176,003,604)
Total shareholders' equity	55,370,227	69,988,285
Noncontrolling interest	7,010,855	7,010,855
Total equity	62,381,082	76,999,140
Total liabilities and equity	\$ 297,982,989	\$ 297,396,545

American Overseas Group Limited
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Revenues:		
Net premiums earned	\$ 6,813,031	\$ 3,026,054
Change in fair value of credit derivatives:		
Realized gains and other settlements	425,892	573,795
Unrealized losses	(18,257,733)	(6,333,981)
Net change in fair value of credit derivatives	(17,831,841)	(5,760,186)
Net investment income	1,320,304	2,078,164
Net realized gains on sale of investments	45,863	—
Total other-than-temporary impairment losses	—	—
Portion of impairment losses recognized in other comprehensive (loss) income	—	—
Net other-than-temporary impairment losses recognized in earnings	—	—
Foreign currency (losses) gains	(223,681)	189,190
Total revenues	(9,876,324)	(466,778)
Expenses:		
Loss and loss adjustment expenses	941,884	738,953
Acquisition expenses	1,861,713	1,498,024
Operating expenses	1,333,296	1,759,421
Total expenses	4,136,893	3,996,398
Net loss available to common shareholders	\$ (14,013,217)	\$ (4,463,176)
Net loss per common share:		
Basic	\$ (5.18)	\$ (1.69)
Diluted	\$ (5.13)	\$ (1.69)
Weighted-average number of common shares outstanding:		
Basic	2,706,279	2,643,243
Diluted	2,733,241	2,644,132

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

	Three Months Ended	
	March 31,	
	2013	2012
Net loss	\$ (14,013,217)	\$ (4,463,176)
Other comprehensive loss		
Change in unrealized fair value of investments	(878,470)	(554,070)
Less: Reclassification adjustment for net realized gains included in net income	(45,863)	—
Less: Net other-than-temporary impairment losses recognized in earnings	—	—
Portion of impairment losses recognized in other comprehensive income	—	—
Other comprehensive loss	(924,333)	(554,070)
Comprehensive loss available to common shareholders	\$ (14,937,550)	\$ (5,017,246)

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

	Share capital	Noncontrolling interest	Additional paid-in capital	Accumulated other comprehensive income	Retained deficit	Total
Balance, December 31, 2012	\$ 2,676,608	\$ 7,010,855	\$ 231,891,122	\$ 11,424,159	\$ (176,003,604)	\$ 76,999,140
Share issuance	30,001	—	(30,001)	—	—	—
Share based compensation	—	—	319,492	—	—	319,492
Net loss	—	—	—	—	(14,013,217)	(14,013,217)
Net change in unrealized gains and losses on available-for-sale securities	—	—	—	(924,333)	—	(924,333)
Balance, March 31, 2013	<u>\$ 2,706,609</u>	<u>\$ 7,010,855</u>	<u>\$ 232,180,613</u>	<u>\$ 10,499,826</u>	<u>\$ (190,016,821)</u>	<u>\$ 62,381,082</u>

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

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net loss for the period	\$ (14,013,217)	\$ (4,463,176)
Adjustments to reconcile net income to net cash used in operating activities:		
Net realized gains on sale of investments	(45,863)	—
Foreign currency gains on revaluation	(223,665)	(189,191)
Net unrealized losses on credit derivatives	18,257,733	6,333,981
Amortization of deferred expenses and depreciation	83,150	106,888
Amortization of bond premium and discount	169,397	128,121
Share based compensation	319,492	21,811
Changes in assets and liabilities:		
Accrued investment income	80,287	50,056
Reinsurance balances receivable, net	(114,723)	591,767
Funds withheld	(2,666,690)	—
Recoverables on paid losses	(792,149)	(420,429)
Deferred policy acquisition costs	837,303	1,058,370
Other assets	(615,182)	(476,911)
Losses and loss adjustment expense reserve	(373,878)	(378,869)
Unearned premiums	(2,606,741)	(2,198,634)
Derivative liabilities	(7,327)	(46,720)
Accounts payable and accrued liabilities	(65,285)	192,420
Net cash (used in) provided by operating activities	(1,777,358)	309,484
Cash flows from investing activities:		
Purchases of fixed maturity securities	(26,839,945)	—
Proceeds on maturities of fixed maturity securities	22,027,843	34,235,318
Purchases of short term investments	—	(4,995,143)
Purchases of other investments	(8,500,000)	—
Net change in restricted cash	3,141,421	(33,991,212)
Sales (purchases) of fixed assets	5,581	(17,497)
Net cash used in investing activities	(10,165,100)	(4,768,534)
Net decrease in cash and cash equivalents	(11,942,458)	(4,459,050)
Cash and cash equivalents – Beginning of period	36,317,205	13,253,185
Cash and cash equivalents – End of period	\$ 24,374,747	\$ 8,794,135

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, 2012 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

On May 6, 2013, Assured Guaranty Ltd. and its subsidiaries (“Assured”) announced that they had reached a settlement with UBS AG (“UBS”) resolving their claims with respect to various U.S. residential mortgage-backed securities (“RMBS”) transactions insured by Assured, including claims relating to reimbursement for breaches of representations and warranties (“R&W”). Under the settlement, UBS is required to make an initial cash payment to Assured of \$358 million. Additionally, UBS is required to reimburse Assured for a portion of all future losses on certain transactions under a collateralized loss-sharing reinsurance agreement to be put in place by the third quarter of 2013. Assured has announced that this settlement resolves all RMBS claims that Assured has asserted against UBS, including those that have been in litigation.

On June 21, 2013, Assured announced that they and Flagstar Bank have entered into a Settlement Agreement concerning Assured’s litigation against Flagstar Bank for breaches of R&W in connection with insured RMBS. The agreement follows a February 5, 2013 decision by the United States District Court for the Southern District of New York in favor of Assured. As part of the settlement, Flagstar Bank is required to make a cash payment to Assured of \$105 million. Flagstar also is required to reimburse Assured in full for all future claims on certain of Assured’s insurance policies. Additionally, Flagstar Bank has agreed not to appeal the decision reached by the United States District Court for the Southern District of New York. Assured has announced that the comprehensive settlement resolves all of its RMBS claims against Flagstar Bank and releases both parties from any and all other future RMBS-related claims between the parties.

The Company has determined that a number of policies ceded to the Company by Assured would be affected by these settlements. The Company anticipates that approximately \$1.5 million and \$0.4 million, respectively, of its R&W credit will be reduced by initial and future cash receipts on reinsurance ceded to the Company’s subsidiary, American Overseas Reinsurance Company Limited on the UBS and Flagstar Bank policies; however, there is considerable uncertainty regarding the timing and amount of these payments and the impact on the Company’s consolidated balance sheets and statements of operations at this time. The Company expects to record the impact of these transactions in 2013.

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 March 31, 2013, was 114,718 shares or 4% of the common shares outstanding.

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 March 31, 2013 (other than for Mr. Steel, whose equity awards are set forth in “Equity Compensation of Executive Officers” below).

Name	Shares Underlying Options at March 31, 2013 (Outstanding)	Shares Underlying Options at March 31, 2013 (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.....	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 March 31, 2013:

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	\$17,474
	19,850	—	\$14.50	3/5/2015	—	—
	380	1,141	\$15.20	5/1/2016	—	—
	—	2,615	\$9.15	5/1/2016	—	—
	—	—	—	—	2,188	\$38,618

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⁾
Sean Symons	—	—	—	—	5,000	\$88,250

(1) Based on the closing price of \$17.65 per share on March 31, 2013

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 2013:

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	—	—	—	—

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 2013 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.