



# AMERICAN OVERSEAS GROUP LIMITED

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SIX MONTH REPORT

JUNE 30, 2013

(UNAUDITED)

**American Overseas Group Limited**  
**Consolidated Balance Sheets**  
(Unaudited)

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Investments: Fixed-maturity securities held as available for sale, at fair value (amortized cost 2013: \$147,439,618; 2012: \$154,334,126)	\$ 154,161,270	\$ 165,758,285
Other investments, at fair value (cost 2013: \$21,000,000; 2012 \$nil)	20,983,359	-
Cash and cash equivalents	22,260,984	36,317,205
Restricted cash	42,601,474	45,138,700
Accrued investment income	960,285	1,189,414
Reinsurance balances receivable, net	13,298,730	11,561,369
Funds withheld	5,622,259	1,533,086
Recoverables on paid losses	5,607,415	6,686,859
Deferred policy acquisition costs	27,019,893	28,775,647
Deferred expenses	302,433	345,740
Other assets	1,212,764	90,240
<b>Total assets</b>	<b>\$ 294,030,866</b>	<b>\$ 297,396,545</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Losses and loss expense reserve	\$ 22,316,408	\$ 22,246,663
Unearned premiums	68,109,052	72,538,525
Accounts payable and accrued liabilities	717,224	698,507
Derivative liabilities	72,583,550	65,213,710
Redeemable Series A preference shares	59,700,000	59,700,000
<b>Total liabilities</b>	<b>223,426,234</b>	<b>220,397,405</b>
Shareholders' equity:		
Common shares	2,716,276	2,676,608
Additional paid-in capital	232,291,820	231,891,122
Accumulated other comprehensive income	6,705,011	11,424,159
Retained deficit	(178,119,330)	(176,003,604)
<b>Total shareholders' equity</b>	<b>63,593,777</b>	<b>69,988,285</b>
Noncontrolling interest	7,010,855	7,010,855
<b>Total equity</b>	<b>70,604,632</b>	<b>76,999,140</b>
<b>Total liabilities and equity</b>	<b>\$ 294,030,866</b>	<b>\$ 297,396,545</b>

**American Overseas Group Limited**  
**Consolidated Statements of Operations**  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Revenues:</b>				
Net premiums earned	\$ 6,640,968	\$ 5,369,126	\$ 13,453,999	\$ 8,395,180
Change in fair value of credit derivatives:				
Realized gains and other settlements	674,197	673,781	1,100,089	1,247,576
Unrealized gains (losses)	10,615,234	(3,033,787)	(7,642,499)	(9,367,768)
Net change in fair value of credit derivatives	11,289,431	(2,360,006)	(6,542,410)	(8,120,192)
Net investment income	1,264,851	1,884,022	2,585,156	3,962,186
Net realized gains on sale of investments	—	—	45,863	—
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 losses	(168,359)	(285,702)	(392,040)	(96,512)
<b>Total revenues</b>	<b>19,026,891</b>	<b>4,607,440</b>	<b>9,150,568</b>	<b>4,140,662</b>
<b>Expenses:</b>				
Loss and loss adjustment expenses	3,693,411	3,380,674	4,635,295	4,119,627
Acquisition expenses	1,954,233	2,304,887	3,815,946	3,802,911
Operating expenses	1,481,756	1,375,886	2,815,053	3,135,308
<b>Total expenses</b>	<b>7,129,400</b>	<b>7,061,447</b>	<b>11,266,294</b>	<b>11,057,846</b>
<b>Net income (loss)</b>	<b>\$ 11,897,491</b>	<b>\$ (2,454,007)</b>	<b>\$ (2,115,726)</b>	<b>\$ (6,917,184)</b>
Net income (loss) per common share:				
Basic	\$ 4.38	\$ (0.93)	\$ (0.78)	\$ (2.62)
Diluted	\$ 4.34	\$ (0.93)	\$ (0.77)	\$ (2.61)
Weighted-average number of common shares outstanding:				
Basic	2,713,424	2,647,178	2,709,852	2,645,210
Diluted	2,743,121	2,651,411	2,738,181	2,647,772

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Net income (loss)</b>	\$ 11,897,491	\$ (2,454,007 )	\$ (2,115,726 )	\$ (6,917,184 )
<b>Other comprehensive income</b>				
Change in unrealized fair value of investments	(3,794,815 )	(76,498)	(4,673,285)	100,633
Less: Reclassification adjustment for net realized gains included in net income (loss)	—	—	(45,863)	—
Less: Net other-than-temporary impairment losses (recognized in earnings)	—	—	—	—
Portion of impairment losses recognized in other comprehensive income	—	—	—	—
Other comprehensive (loss) income	(3,794,815 )	(76,498 )	(4,719,148)	100,633
<b>Comprehensive income (loss) for the period</b>	<b>\$ 8,102,676</b>	<b>\$ (2,530,505 )</b>	<b>\$ (6,834,874)</b>	<b>\$ (6,816,551 )</b>

**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	39,668	—	(39,668)	—	—	—
Share based compensation	—	—	440,366	—	—	440,366
Net loss	—	—	—	—	(2,115,726)	(2,115,726)
Net change in unrealized gains and losses on available-for-sale securities	—	—	—	(4,719,148)	—	(4,719,148)
Balance, June 30, 2013	<u>\$ 2,716,276</u>	<u>\$ 7,010,855</u>	<u>\$ 232,291,820</u>	<u>\$ 6,705,011</u>	<u>\$ (178,119,330)</u>	<u>\$ 70,604,632</u>

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

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net loss for the period	\$ (2,115,726)	\$ (6,917,184)
Adjustments to reconcile net income to net cash used in operating activities:		
Net realized gains on sale of investments	(45,863)	—
Foreign currency (gains) losses on revaluation	(392,218)	96,512
Net unrealized losses on credit derivatives	7,642,499	9,367,768
Amortization of deferred expenses and depreciation	45,597	106,888
Amortization of bond premium and discount	308,426	218,876
Share based compensation	440,366	61,463
Changes in assets and liabilities:		
Accrued investment income	229,130	240,789
Reinsurance balances receivable, net	(1,345,144)	13,408,576
Funds withheld	(4,089,173)	(406,977)
Recoverables on paid losses	1,079,444	3,363,175
Deferred policy acquisition costs	1,755,755	(286,548)
Other assets	(1,124,813)	(18,754,560)
Losses and loss adjustment expense reserve	69,744	(7,473,718)
Unearned premiums	(4,429,473)	7,758,149
Derivative liabilities	(272,659)	(73,146)
Accounts payable and accrued liabilities	18,717	(594,934)
<b>Net cash (used in) provided by operating activities</b>	<b>(2,225,391)</b>	<b>115,129</b>
<b>Cash flows from investing activities:</b>		
Purchases of fixed maturity securities	(26,839,945)	—
Proceeds on maturities of fixed maturity securities	33,471,889	74,785,158
Purchases of short term investments	—	(9,994,365)
Purchases of other investments	(21,000,000)	—
Net change in restricted cash	2,537,226	(69,859,303)
Purchases of fixed assets	—	(15,843)
<b>Net cash used in investing activities</b>	<b>(11,830,830)</b>	<b>(5,084,353)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(14,056,221)</b>	<b>(4,969,224)</b>
Cash and cash equivalents – Beginning of period	36,317,205	13,253,185
<b>Cash and cash equivalents – End of period</b>	<b>\$ 22,260,984</b>	<b>\$ 8,283,961</b>

**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](http://www.aoreltd.com) under “Investor Information.”

**Subsequent events**

On July 18, 2013, the Company’s operating subsidiary, American Overseas Reinsurance Company Limited (“AORE”), completed a private repurchase of its Class B Preference Shares (the “Shares”) from a holder (the “Holder”). Under the terms of the repurchase agreement, AORE repurchased nine (9) of its Shares at a price of \$25,000 per share from the Holder, for an aggregate repurchase price of \$225,000. The Company expects that the repurchase of the Shares will result in a reduction of Noncontrolling interest of \$146,056 on the Company’s consolidated balance sheet during the third quarter of 2013, leaving \$6,864,799 of Noncontrolling interest subsequent to this repurchase. The Company expects that a reduction of \$78,944 of shareholders’ equity also will be recorded on the Company’s consolidated balance sheet during the third quarter of 2013 as a result of the repurchase of the Shares.

**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, 2013, was 127,347 shares or approximately 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 June 30, 2013 (other than for Mr. Steel, whose equity awards are set forth in “Equity Compensation of Executive Officers” below).

Name	Shares Underlying Options at June 30, 2013 (Outstanding)	Shares Underlying Options at June 30, 2013 (Vested and Exercisable)	RSUs: That Have Not Vested
James Zech.....	2,953	738	4,191
Debra J. Roberts.....	3,857	963	4,775
Clement S. Dwyer .....	7,136	3,663	5,358
Steven J. Tynan .....	7,136	3,663	5,358

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, 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 <sup>(1)</sup>
David K. Steel	14,950	—	\$120.30	6/30/2015	—	—
	3,793	—	\$134.50	5/2/2013	—	—
	4,999	—	\$162.00	2/20/2014	—	—
	—	—	—	—	660	\$11,880
	19,850	—	\$14.50	3/5/2015	—	—
	760	761	\$15.20	5/1/2016	—	—
	653	1,962	\$9.15	5/1/2016	—	—
	—	—	—	—	1,641	\$29,538
Sean Symons	—	—	—	—	2,340	\$42,120
	—	—	—	—	3,750	\$67,500

(1) Based on the closing price of \$18.00 per share on June 28, 2013, the last business day of the calendar quarter ending on June 30, 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 Vested <sup>(2)</sup>
David K. Steel .....	—	—	877	\$14,909
Sean Symons .....	—	—	1,250	\$21,250

(2) Based on the closing price of \$17.00 per share on April 26 & 29, 2013, the days of vesting



## **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](http://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](mailto: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](http://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:  
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Jersey City, New Jersey 07310-1900  
USA

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

### **Independent Registered Auditors**

Deloitte & Touche Ltd.