



AMERICAN OVERSEAS GROUP LIMITED

SIX MONTH REPORT

JUNE 30, 2016

(UNAUDITED)

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Fixed-maturity securities held as available for sale, at fair value	\$ 91,281,586	\$ 103,801,752
Equity investments available for sale, at fair value	6,338,360	6,856,397
Cash and cash equivalents	29,259,144	31,130,939
Restricted cash	52,301,281	51,403,076
Accrued investment income	194,080	202,864
Premiums receivable	71,157,611	61,877,148
Reinsurance balances receivable, net	306,051,753	277,439,278
Salvage and subrogation recoverable	2,208,530	1,213,936
Deferred policy acquisition costs	190,791	192,408
Intangible assets	4,800,000	4,800,000
Goodwill	33,050,000	33,050,000
Other assets	2,412,286	2,030,127
Total assets	\$ 599,245,422	\$ 573,997,925
Liabilities and Shareholders' Equity		
Liabilities:		
Losses and loss expense reserve	\$ 259,136,136	\$ 249,204,344
Unearned premiums	110,610,118	93,472,483
Ceded premium payable	75,667,355	64,380,313
Payable to general agents	1,506,059	1,193,824
Funds withheld	4,523,162	3,925,745
Accounts payable and accrued liabilities	3,536,532	2,315,601
Redeemable Series A preference shares	9,963,197	9,786,582
Derivative liabilities	21,061,513	16,778,892
Notes payable	30,000,004	40,000,004
Non-owned interest in VIE	300,000	300,000
Interest payable	783,874	1,023,400
Fair value adjustment	18,199,414	19,355,150
Deferred tax liability	41,125	37,625
Total liabilities	535,328,489	501,773,963
Shareholders' equity:		
Common shares	4,447,100	4,376,500
Additional paid-in capital	187,511,069	186,398,669
Accumulated other comprehensive income	413,800	(2,214,236)
Retained deficit	(134,508,412)	(122,390,347)
Total shareholders' equity	57,863,557	66,170,586
Non-controlling interest of preferred shares in subsidiaries	6,053,376	6,053,376
Total equity	63,916,933	72,223,962
Total liabilities and equity	\$ 599,245,422	\$ 573,997,925

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Six Months Ended	
	June 30,	
	2016	2015
Net premiums earned	\$ 2,466,151	\$ 4,174,763
Fee income	7,266,657	6,538,062
Net investment income	1,045,732	1,485,161
Net realized (losses) gains	(1,898,856)	49,135
Fair value adjustment	979,121	1,204,159
Net change in fair value of credit derivatives	(4,726,673)	15,538,588
Other income	-	28,790
Total revenues	5,132,132	29,018,658
Net losses and loss adjustment expenses	6,392,849	7,886,939
Acquisition costs	(194,625)	850,352
General and administrative expenses	9,089,854	7,638,465
Amortization of intangible assets	-	1,119,084
Interest expense	1,766,657	3,135,629
Other expense	191,962	172,113
Total expenses	17,246,697	20,802,582
(Loss)/Income before income tax expense and non-controlling interest	(12,114,565)	8,216,076
Income tax expense	(3,500)	(3,500)
Net (loss)/income before non-controlling interest	(12,118,065)	8,212,576
Dividends on preference shares	-	(1,170,505)
Net (loss)/income attributable to common shareholders	<u><u>\$ (12,118,065)</u></u>	<u><u>\$ 7,042,071</u></u>
Net (loss)/income per common share:		
Basic	\$ (273.96)	\$ 166.65
Diluted	\$ (273.96)	\$ 165.63
Weighted-average number of common shares outstanding:		
Basic	44,233	42,256
Diluted	44,233	42,518

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Six Months Ended	
	June 30,	
	2016	2015
Net (loss)/income before non-controlling interest	\$ (12,118,065)	\$ 8,212,576
Other comprehensive income		
Change in unrealized fair value of investments	729,180	952,588
Less: reclassification adjustment for net realized investment (losses) gains included in income	1,898,856	(49,135)
Other comprehensive income	2,628,036	903,453
Comprehensive (loss)/income	\$ (9,490,029)	\$ 9,116,029

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF EQUITY AND RETAINED DEFICIT
(Unaudited)

	<u>Share capital</u>	<u>Noncontrolling Interest</u>	<u>Additional paid-in-capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained deficit</u>	<u>Total shareholders' equity</u>
Balance, December 31, 2015	\$ 4,376,500	\$6,053,376	\$186,398,669	\$ (2,214,236)	\$ (122,390,347)	\$ 72,223,962
Net loss					(12,118,065)	(12,118,065)
Share issuance	19,200		407,119			426,319
Share based compensation	51,400		705,281			756,681
Net change in unrealized gains and losses on investments				2,628,036		- 2,628,036
Balance, June 30, 2016	<u>\$ 4,447,100</u>	<u>\$6,053,376</u>	<u>\$187,511,069</u>	<u>\$ 413,800</u>	<u>\$ (134,508,412)</u>	<u>\$ 63,916,933</u>

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)/income for the year	(12,118,065)	8,212,576
Adjustments to reconcile net (loss)/income to net cash used in operating activities:		
Net realized loss (gains) on sale of investments	1,898,856	(49,135)
Net unrealized (gains) loss on credit derivatives	4,726,673	(15,538,588)
Deferred tax expense	3,500	3,500
Amortization of intangible assets	-	1,119,084
Interest expense	1,766,657	3,135,629
Share based compensation	756,681	510,288
Amortization of fair value adjustment	(979,121)	(1,204,157)
Amortization of bond discount	44,988	72,779
Changes in operating assets and liabilities:		
Accrued investment income	8,784	38,131
Premiums receivable	(9,280,463)	(3,395,148)
Reinsurance balance receivable, net	(28,612,475)	(9,372,350)
Salvage and subrogation	(994,594)	1,594,647
Deferred acquisition costs, net	1,617	250,443
Other assets	(382,159)	(274,267)
Unpaid losses and loss adjustment expenses	9,931,792	(1,091,760)
Unearned premiums	17,137,635	198,708
Payable to general agents	312,235	213,754
Funds withheld	597,417	2,563,633
Ceded premium payable	11,287,042	8,094,092
Accounts payable and accrued liabilities	1,220,931	(2,456,613)
Changes in derivative liability	(444,052)	390,213
Net cash (used in) provided by operating activities	<u>(3,116,121)</u>	<u>(6,984,541)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of available for sale securities	(46,945,361)	(36,773,991)
Proceeds from sales of investments	45,127,299	37,530,858
Proceeds from maturities of investments	15,540,457	15,677,836
Change in restricted cash	(898,205)	7,271,562
Net cash provided by (used in) investing activities	<u>12,824,190</u>	<u>23,706,265</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term note payable	(10,000,000)	(1,638,589)
Interest paid	(2,006,183)	(2,852,525)
Proceeds from issuance of common shares	426,319	-
Dividends paid on preferred shares	-	(1,170,505)
Net cash (used in) financing activities	<u>(11,579,864)</u>	<u>(5,661,619)</u>
Net increase (decrease) in cash and cash equivalents	(1,871,795)	11,060,105
Cash and cash equivalents - Beginning of year	31,130,939	35,497,038
Cash and cash equivalents - End of year	<u>\$ 29,259,144</u>	<u>\$ 46,557,143</u>

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, 2015 for American Overseas Group Limited which are posted on the Company’s website and can be found at www.aoreltd.com under “Financial Information.”

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, 2016, was 5,682 shares or approximately 13% 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, 2016 (other than for Ms. Roberts and Ms. Fyfe, whose equity awards are set forth in “Equity Compensation of Executive Officers” below).

Name	Shares Underlying		RSUs That Have Not Vested
	Options at June 30, 2016 (Outstanding)	Options at June 30, 2016 (Vested and Exercisable)	
James Zech	29.53	29.53	18.25
Clement S. Dwyer	7.36	7.36	18.25

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, 2016:

Name	Option Awards				RSU Awards	
	Number of	Number of	Option	Option	Number of	Market Value
	Common	Common				
	Shares	Shares				
	Underlying	Underlying				
Options	Unexercised	Unexercised	Exercise	Expiration	Have Not	of Shares
	Options	Options	Price	Date		
Exercisable	Unexercisable				Vested	Not Vested ⁽¹⁾
Debra J. Roberts	12.42	-	\$ 1,090.00	9/29/2018	-	-
	26.15	-	\$ 915.00	4/26/2019	-	-
	-	500.00	\$ 850.00	12/15/2022	-	-
	-	-	-	-	142.75	\$ 135,613
Rochelle P. Fyfe	-	150.00	\$ 850.00	12/15/2022	66.19	\$ 62,881
Patricia A. Ryan	-	150.00	\$ 850.00	12/15/2022	50.00	\$ 47,500

(1) Based on the closing price of \$950.00 per share on June 30, 2016.

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 2016:

Name	Option Awards		RSU Awards	
	Number of	Value Realized	Number of	Value Realized
	Shares Acquired	on Exercise	Shares Acquired	on Vesting
	on Exercise	on Exercise	on Vesting	on Vesting
Debra J. Roberts	—	—	18.00	\$14,850.00 ⁽¹⁾
Rochelle P. Fyfe	—	—	31.00	\$25,575.00 ⁽¹⁾
Patricia A. Ryan	—	—	25.00	\$20,625.00 ⁽¹⁾

(1) Based on the closing price of \$825.00 per share on May 16, 2016, the day of vesting.

American Overseas Group Limited Corporate Information

3rd Floor
141 Front Street
Hamilton HM 19 Bermuda
441-294-3962
www.aoreltd.com

Investor Information

Information about American Overseas Group Limited, can be accessed via our website at www.aoreltd.com.

Requests for copies of the American Overseas Group Limited 2016 semi-annual 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:

Toll free
1-800 522 6645
Toll
1 (201) 680 6578

Mailing Address:

Computershare, Inc.
P.O. BOX 30170
College Station, TX 77842
USA

Web Address: <https://www-us.computershare.com/Investor/Contact/Index>

Independent Registered Auditors

Deloitte Ltd.