



**American Overseas Group Limited Announces Second Quarter 2013 Net Income of \$11.9 Million and Operating Income of \$2.1 Million.**

HAMILTON, Bermuda, September 30, 2013 (BUSINESS WIRE) -- American Overseas Group Limited (BSX:AORE.BH) (Pink Sheets: AORE.PK) ("AOG" or the "Company") today reported net income of \$11.9 million, or \$4.34 per diluted share, for the quarter ended June 30, 2013. This compares to a net loss of \$2.5 million, or \$0.93 per diluted share, for the second quarter of 2012. The net loss for the first six months of 2013 was \$2.1 million, or \$0.77 per diluted share. This compares to a net loss of \$6.9 million, or \$2.61 per diluted share, for the first six months of 2012. Property/casualty premiums earned for the six months ended June 30, 2013 were \$7.7 million compared to \$0 for the first six months of 2012. The results for the second quarter and first six months of 2013 were impacted by net unrealized gains on credit derivatives of \$10.6 million and a net unrealized loss on credit derivatives of \$7.6 million, respectively. Book value per share at June 30, 2013 was \$23.41, a decrease of 11% from year-end 2012 when book value per share was \$26.20.

During the second quarter of 2013, operating income was \$2.1 million, or \$0.75 per diluted share, compared to operating income of \$1.5 million, or \$0.57 per diluted share, during the second quarter of 2012. Operating income for the first six months of 2013 was \$6.2 million, or \$2.28 per diluted share, compared to operating income of \$1.7 million, or \$0.66 per diluted share, for the first six months of 2012. Operating book value per share was \$48.23 at June 30, 2013, a decrease of less than 1% from year-end 2012 when operating book value per share was \$48.35. Operating income and operating book value per share are non-GAAP financial measures. Please refer to "Explanation of Non-GAAP Financial Measures" below for a description of operating income and for a reconciliation of operating income to net income and operating book value per share to book value per share.

**Changes of Officers and Directors**

David K. Steel has resigned as President and a Director of the Company and its wholly-owned subsidiary, American Overseas Reinsurance Company Limited ("AORE") effective September 30, 2013. Mr. Steel will continue to assist AORE with the run-off of its financial guarantee book of business as a consultant.

Debra J. Roberts, a Director of AOG and AORE since 2011, has been appointed as President and CEO of AOG effective October 1, 2013. A successor for the position of President of AORE has not yet been determined.

Rochelle P. Fyfe, CFO of Orpheus Group Ltd., has been appointed as a Director of both AOG and AORE effective October 1, 2013.

Steven J. Tynan, Chairman, commenting on the above changes, said: “We want to thank David for his significant contributions to the Company over the past eight years. He has skillfully managed the run-off of our financial guarantee book and successfully repositioned the Company in the property/casualty reinsurance business. He will continue to assist us with the financial guarantee run-off as a consultant, and we will be forever in his debt.

“We are also pleased that Debra has agreed to accept the position of President and CEO of AOG. She is a consummate reinsurance professional and has already served for two years on the Boards of both AOG and AORE. Debra was instrumental in the re-domestication of AORE from Bermuda to Barbados and we look forward to her continuing contributions as the Company develops its property/casualty reinsurance business.

“Finally, please join me in welcoming Shelley to the Boards of AOG and AORE. Shelley is a CPA, and her strong financial skills will benefit AOG and AORE in the years to come.”

### **Subsequent Events:**

On July 18, 2013, AORE completed a private repurchase of nine (9) Class B Preference Shares (the “Shares”) from a holder (the “Holder”). Under the terms of the repurchase agreement, AORE repurchased the Shares at a price of \$25,000 per share from the Holder, for an aggregate 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 the 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.

### **Forward-Looking Statements**

This release contains statements that may be considered "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include, without limitation, the Company's expectations respecting the volatility of its insured portfolio, losses, loss reserves and loss development, the adequacy and availability of its liquidity and capital resources, its current run off strategy, its strategy for writing other reinsurance businesses and its expense reduction measures. These statements are based on current expectations and the current views of the economic and operating environment and are not guarantees of future performance. A number of risks and uncertainties, including economic competitive conditions, could cause actual results to differ materially from those projected in forward-looking statements. The Company's actual results could differ materially from those expressed or implied in the forward-looking statements. Among the factors that could cause actual results to differ materially are: (i) the Company's ability to execute its business strategy, including with respect to new reinsurance businesses; (ii) changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates and other factors; (iii) the loss of significant customers with which AORE has a concentration of its reinsurance in force; (iv) legislative and regulatory developments; (v) changes in regulations or tax laws applicable to the Company or AORE or its customers; (vi) more severe or more frequent losses associated with AORE’s reinsured portfolio; (vii) losses on credit derivatives; (viii) changes in the Company's accounting policies and

procedures that impact the Company's reported financial results; (ix) the effects of ongoing and future litigation and (x) other risks and uncertainties that have not been identified at this time. The Company undertakes no obligation to revise or update any forward-looking statement to reflect changes in conditions, events, or expectations, except as required by law.

### **Explanation of Non-GAAP Financial Measures**

The Company believes that the following non-GAAP financial measures included in this press release serve to supplement GAAP information and are meaningful to investors.

***Operating income (loss):*** The Company believes operating income (loss) is a useful measure because it measures income from operations, unaffected by non-operating items such as realized investment gains or losses, unrealized gains or losses on credit derivatives and foreign currency gains or losses. Operating income (loss) is typically used by research analysts and rating agencies in their analysis of the Company.

***Operating book value per share and adjusted operating book value per share:*** The Company believes the presentation of operating book value per share and adjusted operating book value per share to be useful because they give a measure of the value of the Company, excluding non-operating items such as unrealized gains and losses on credit derivatives. The Company derives operating book value by beginning with GAAP book value and adding back the unrealized gain or loss portion of its derivative liability, excluding the impact of credit impairments. Adjusted operating book value per share begins with operating book value as calculated above and then adding or subtracting the value of:

- a. GAAP unearned premium reserves (on policies classified as financial guarantee);
- b. Deferred acquisition costs;
- c. Unearned premiums reserves and the present value of estimated future installment premiums net of ceding commissions on credit derivative policies (discounted at 1.41% at June 30, 2013, and 0.72% at December 31, 2012);
- d. Unrealized appreciation or depreciation of investments; and
- e. Noncontrolling interest in subsidiary – Class B preference shares.

***Credit impairments on insured credit default swap ("CDS") contracts:*** Management measures and monitors credit impairments on AORE's credit derivatives, which are expected to be paid out over the term of the CDS contracts. The credit impairments are a non-GAAP financial measure which management believes to be useful to analysts and investors in reviewing the results of our entire portfolio of policies. Management considers credit derivative policies as a normal extension of AORE's financial guarantee business and reinsurance in substance.

Reconciliations of these non-GAAP financial measures to the most comparable GAAP measures are set forth below.

## **Information About the Company**

American Overseas Group Limited is a Bermuda-based holding company. Its operating subsidiary, American Overseas Reinsurance Company Ltd., is a property/casualty reinsurance company that currently writes short tail non-catastrophe property/casualty reinsurance and historically wrote financial guaranty reinsurance for U.S. and international public finance and structured finance transactions. The Company's financial guaranty reinsurance business is in run-off. More information can be found at [www.aoreltd.com](http://www.aoreltd.com).

**American Overseas Group Limited**  
**Consolidated Balance Sheets**  
**(unaudited)**  
**As at June 30, 2013 and December 31, 2012**  
**(dollars in thousands)**

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
<b><u>Assets</u></b>		
Investments:		
Fixed-maturity securities held as available for sale, at fair value (Amortized cost: \$147,439 and \$154,334)	\$ 154,161	\$ 165,758
Other investments, at fair value (Cost: \$21,000 and \$Nil)	20,983	-
Cash and cash equivalents	22,261	36,317
Restricted cash	42,601	45,139
Accrued investment income	960	1,189
Reinsurance balances receivable, net	13,299	11,561
Funds withheld	5,622	1,533
Recoverables on paid losses	5,607	6,687
Deferred policy acquisition costs	27,020	28,775
Deferred expenses	302	346
Other assets	1,214	90
<b>Total Assets</b>	<b>\$ 294,031</b>	<b>\$ 297,396</b>
 <b><u>Liabilities and Equity</u></b>		
<b>Liabilities:</b>		
Loss and loss expense reserve	\$ 22,316	\$ 22,247
Unearned premiums	68,109	72,538
Accounts payable and accrued liabilities	717	698
Derivative liabilities	72,584	65,214
Redeemable Series A preference shares (\$1,000 redemption value and \$0.10 par value; authorized shares - 75,000; issued and outstanding shares - 59,700 at June 30, 2013 and December 31, 2012)	59,700	59,700
<b>Total Liabilities</b>	<b>223,426</b>	<b>220,397</b>
 <b>Shareholders' Equity:</b>		
Common shares	2,716	2,677
Additional paid-in capital	232,292	231,891
Accumulated other comprehensive income	6,705	11,424
Retained deficit	(178,119)	(176,004)
<b>Total Shareholders' Equity</b>	<b>63,594</b>	<b>69,988</b>
 Noncontrolling interest - Class B preference shares of subsidiary	 7,011	 7,011
<b>Total Equity</b>	<b>70,605</b>	<b>76,999</b>
<b>Total Liabilities and Equity</b>	<b>\$ 294,031</b>	<b>\$ 297,396</b>

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

For the six months ended June 30, 2013 and 2012  
(dollars in thousands except share and per share amounts)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	2013	2012	2013	2012
<b>Revenues</b>				
Net premiums earned	\$ 6,641	\$ 5,369	\$ 13,454	\$ 8,395
Change in fair value of credit derivatives				
Realized gains and other settlements	674	674	1,100	1,248
Unrealized gains (losses)	10,615	(3,034)	(7,642)	(9,368)
Net change in fair value of credit derivatives	11,289	(2,360)	(6,542)	(8,120)
Net investment income	1,265	1,884	2,585	3,962
Net realized gains on sale of investments	-	-	46	-
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)	(286)	(392)	(97)
<b>Total revenues</b>	<b>19,027</b>	<b>4,607</b>	<b>9,151</b>	<b>4,140</b>
<b>Expenses</b>				
Losses and loss adjustment expenses	3,693	3,381	4,635	4,120
Acquisition expenses	1,954	2,305	3,816	3,803
Operating expenses	1,482	1,376	2,815	3,135
<b>Total expenses</b>	<b>7,129</b>	<b>7,061</b>	<b>11,266</b>	<b>11,058</b>
<b>Net income (loss)</b>	<b>\$ 11,897</b>	<b>\$ (2,454)</b>	<b>\$ (2,116)</b>	<b>\$ (6,918)</b>
Net income (loss) per common share:				
<b>Basic</b>	\$ 4.38	\$ (0.93)	\$ (0.78)	\$ (2.62)
<b>Diluted</b>	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

Segment information	<u>Three Months Ended June 30, 2013</u>			<u>Six Months Ended June 30, 2013</u>		
	P&C	FG	Total	P&C	FG	Total
Net earned premiums	\$ 4,442	\$ 2,199	\$ 6,641	\$ 7,691	\$ 5,763	\$ 13,454
Incurring losses	3,729	(36)	3,693	6,047	(1,412)	4,635
Impairment on credit derivatives	-	(600)	(600)	-	(362)	(362)
Acquisition costs	1,048	907	1,954	1,793	2,023	3,816
<b>Net underwriting (loss) gain</b>	<b>\$ (334)</b>	<b>\$ 1,928</b>	<b>\$ 1,594</b>	<b>\$ (149)</b>	<b>\$ 5,514</b>	<b>\$ 5,365</b>
Loss ratio	83.9%	-28.9%	46.6%	78.6%	-30.8%	31.8%
Expense ratio	23.6%	41.2%	29.4%	23.3%	35.1%	28.4%
Combined ratio	107.5%	12.3%	76.0%	101.9%	4.3%	60.1%

**Reconciliation of net income (loss) to operating income (loss):**  
**(Dollars in thousands except share and per share amounts)**

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Operating income</b>				
Net income (loss)	\$ 11,897	\$ (2,454)	\$ (2,116)	\$ (6,918)
Less: Realized (gains) on sale of investments and other-than-temporary impairment losses	-	-	(46)	-
Less: Unrealized losses on credit derivatives	(10,615)	3,034	7,642	9,368
Add back: credit impairment on derivatives	600	653	362	(812)
Less: Foreign currency losses	168	286	392	97
Operating income	<u>\$ 2,051</u>	<u>\$ 1,518</u>	<u>\$ 6,235</u>	<u>\$ 1,735</u>
Net income (loss) per diluted share	\$ 4.34	\$ (0.93)	\$ (0.77)	\$ (2.61)
Less: Realized (gains) on sale of investments and other-than-temporary impairment losses	0.00	0.00	(0.02)	0.00
Less: Unrealized (gains) losses on credit derivatives	(3.87)	1.14	2.79	3.54
Add back: credit impairment on derivatives	0.22	0.25	0.13	(0.31)
Less: Foreign currency losses	0.06	0.11	0.14	0.04
Operating income per diluted share	<u>\$ 0.75</u>	<u>\$ 0.57</u>	<u>\$ 2.28</u>	<u>\$ 0.66</u>

**Reconciliation of book value per share to operating book value per share and adjusted operating book value per share:**  
**(Dollars in thousands except per share amounts)**

	<u>As at</u> <u>Jun 30, 2013</u>	<u>As at</u> <u>Dec 31, 2012</u>
Shares outstanding	2,716	2,677
<u>Book Value Per Share</u>	23.41	26.15
Shareholders' Equity (Book Value)	63,594	69,988
Derivative liability <sup>(1)</sup>	72,596	64,953
Credit impairments on derivatives	(5,175)	(5,537)
Operating book value per share	48.23	48.35
Noncontrolling interest in subsidiary - Class B preference shares	7,011	7,011
Unearned premiums <sup>(2)</sup>	68,590	73,205
Deferred acquisition costs	(27,020)	(28,775)
Present value of installment premiums <sup>(3)</sup>	7,360	8,942
Unrealized gains on investments	(6,705)	(11,424)
Adjusted operating book value per share	\$ 66.36	\$ 66.64

(1) Represents the unrealized gains (losses) portion of the derivative liability.

(2) Includes unearned premium balances on financial guaranty, property casualty and credit derivative policies. The unearned premiums on financial guaranty policies include the present value of future installment premiums, net of ceding commissions.

(3) Estimated present value of future installments, net of ceding commissions, on policies written in credit derivative form only. At June 30, 2013 and December 31, 2012, the discount rate was 1.41% and 0.72%, respectively.

The Company has posted its second quarter 2013 financial results to its website at [www.aoreltd.com](http://www.aoreltd.com) under "Investor Information". If you are a shareholder of American Overseas Group Limited and wish to receive a hard copy of the financial statements by mail, please contact:

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