



American Overseas Group Limited Announces Third Quarter 2013 Net Income of \$9.6 Million and Operating Income of \$1.6 Million.

HAMILTON, Bermuda, December 20, 2013 (BUSINESS WIRE) -- American Overseas Group Limited (BSX:AORE.BH) (Pink Sheets: AORE.PK) ("AOG" or the "Company") today reported net income of \$9.6 million, or \$3.49 per diluted share, for the quarter ended September 30, 2013. This compares to a net income of \$5.8 million, or \$2.20 per diluted share, for the third quarter of 2012. The net income for the first nine months of 2013 was \$7.4 million, or \$2.72 per diluted share. This compares to a net loss of \$1.1 million, or \$0.41 per diluted share, for the first nine months of 2012. Property/casualty premiums earned for the nine months ended September 30, 2013 were \$12.0 million compared to \$0 for the first nine months of 2012. The results for the third quarter and first nine months of 2013 were impacted by net unrealized gains on credit derivatives of \$7.2 million and by net unrealized losses on credit derivatives of \$0.5 million, respectively. Book value per share at September 30, 2013 was \$26.84, an increase of 3% from year-end 2012 when book value per share was \$26.15.

During the third quarter of 2013, operating income was \$1.6 million, or \$0.58 per diluted share, compared to operating income of \$0.9 million, or \$0.35 per diluted share, during the third quarter of 2012. Operating income for the first nine months of 2013 was \$7.8 million, or \$2.86 per diluted share, compared to operating income of \$2.7 million, or \$1.01 per diluted share, for the first nine months of 2012. Operating book value per share was \$49.05 at September 30, 2013, an increase of 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

Sean A. Symons, Chief Financial Officer of AOG and AORE, has left the Company effective December 11, 2013.

Steven J. Tynan, Chairman, commenting on Mr. Symons' departure, said: "We want to thank Sean for his contributions to the Company over the past years. We appreciate his efforts and wish him all the best."

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 1.39% at September 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.

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

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
<u>Assets</u>		
Investments:		
Fixed-maturity securities held as available for sale, at fair value (Amortized cost: \$146,200 and \$154,334)	\$ 151,727	\$ 165,758
Other investments, at fair value (Cost: \$21,000 and \$Nil)	21,979	-
Cash and cash equivalents	26,321	36,317
Restricted cash	42,145	45,139
Accrued investment income	899	1,189
Reinsurance balances receivable, net	9,228	11,561
Funds withheld	6,005	1,533
Recoverables on paid losses	5,526	6,687
Deferred policy acquisition costs	25,607	28,775
Deferred expenses	280	346
Other assets	1,213	90
Total Assets	\$ 290,930	\$ 297,396
 <u>Liabilities and Equity</u>		
Liabilities:		
Loss and loss expense reserve	\$ 20,090	\$ 22,247
Unearned premiums	65,048	72,538
Accounts payable and accrued liabilities	619	698
Derivative liabilities	65,573	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 September 30, 2013 and December 31, 2012)	59,700	59,700
Total Liabilities	211,030	220,397
 Shareholders' Equity:		
Common shares	2,721	2,677
Additional paid-in capital	232,452	231,891
Accumulated other comprehensive income	6,506	11,424
Retained deficit	(168,644)	(176,004)
Total Shareholders' Equity	73,035	69,988
 Noncontrolling interest - Class B preference shares of subsidiary	 6,865	 7,011
Total Equity	79,900	76,999
Total Liabilities and Equity	\$ 290,930	\$ 297,396

American Overseas Group Limited
Consolidated Statements of Operations
(unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Net premiums earned	\$ 6,501	\$ 3,797	\$ 19,955	\$ 12,192
Change in fair value of credit derivatives				
Realized gains and other settlements	356	599	1,456	1,846
Unrealized gains (losses)	7,154	4,180	(489)	(5,188)
Net change in fair value of credit derivatives	7,510	4,779	967	(3,341)
Net investment income	1,214	1,562	3,800	5,525
Net realized gains on sale of investments	748	355	794	355
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 (gains)	245	105	(147)	8
Total revenues	16,218	10,599	25,369	14,739
Expenses				
Losses and loss adjustment expenses	3,191	1,665	7,826	5,785
Acquisition expenses	2,124	1,540	5,940	5,343
Operating expenses	1,349	1,553	4,164	4,689
Total expenses	6,664	4,759	17,930	15,817
Net income (loss)	\$ 9,554	\$ 5,839	\$ 7,439	\$ (1,078)
Net income (loss) per common share:				
Basic	\$ 3.52	\$ 2.20	\$ 2.74	\$ (0.41)
Diluted	3.49	2.20	2.72	(0.41)
Weighted average number of common shares outstanding:				
Basic	2,716,329	2,654,259	2,712,027	2,648,248
Diluted	2,739,234	2,654,538	2,738,548	2,650,049

Segment information	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	P&C	FG	Total	P&C	FG	Total
Net earned premiums	\$ 4,284	\$ 2,217	\$ 6,501	\$ 11,975	\$ 7,980	\$ 19,955
Incurred losses	3,236	(45)	3,191	9,283	(1,457)	7,826
Impairment on credit derivatives	-	(171)	(171)	-	(533)	(533)
Acquisition costs	1,007	1,117	2,124	2,800	3,140	5,940
Net underwriting (loss) gain	\$ 41	\$ 1,316	\$ 1,357	\$ (108)	\$ 6,830	\$ 6,722
Loss ratio	75.5%	-9.7%	46.5%	77.5%	-24.9%	36.5%
Expense ratio	23.5%	50.4%	32.7%	23.4%	39.3%	29.8%
Combined ratio	99.1%	40.6%	79.1%	100.9%	14.4%	66.3%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating income				
Net income (loss)	\$ 9,554	\$ 5,839	\$ 7,439	\$ (1,078)
Less: Realized (gains) on sale of investments and other-than-temporary impairment losses	(748)	(355)	(794)	(355)
Less: Unrealized (gains) losses on credit derivatives	(7,154)	(4,180)	489	5,188
Add back: credit impairment on derivatives	171	(271)	533	(1,082)
Less: Foreign currency (gains) losses	(245)	(105)	147	(8)
Operating income	<u>\$ 1,578</u>	<u>\$ 928</u>	<u>\$ 7,814</u>	<u>\$ 2,664</u>
Net income (loss) per diluted share	\$ 3.49	\$ 2.20	\$ 2.72	\$ (0.41)
Less: Realized (gains) on sale of investments and other-than-temporary impairment losses	(0.27)	(0.13)	(0.29)	(0.13)
Less: Unrealized (gains) losses on credit derivatives	(2.61)	(1.57)	0.18	1.96
Add back: credit impairment on derivatives	0.06	(0.10)	0.19	(0.41)
Less: Foreign currency (gains) losses	(0.09)	(0.04)	0.05	(0.00)
Operating income per diluted share	<u>\$ 0.58</u>	<u>\$ 0.35</u>	<u>\$ 2.86</u>	<u>\$ 1.01</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)

	As at	As at
	September 30, 2013	Dec 31, 2012
Shares outstanding	2,721	2,677
Book Value Per Share	26.84	26.15
Shareholders' Equity (Book Value)	73,035	69,988
Derivative liability ⁽¹⁾	65,442	64,953
Credit impairments on derivatives	(5,004)	(5,537)
Operating book value per share	49.05	48.35
Noncontrolling interest in subsidiary - Class B preference shares	6,865	7,011
Unearned premiums ⁽²⁾	65,529	73,205
Deferred acquisition costs	(25,607)	(28,775)
Present value of installment premiums ⁽³⁾	6,923	8,942
Unrealized gains on investments	(6,506)	(11,424)
Adjusted operating book value per share	\$ 66.40	\$ 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 September 30, 2013 and December 31, 2012, the discount rate was 1.39% and 0.72%, respectively.

The Company has posted its third quarter 2013 financial results to its website at www.aoreltd.com under "Investor Information".

SOURCE: American Overseas Group Limited