American Overseas Group Limited Announces Fourth Quarter 2013 Net Income of $3.4 Million and Operating Income of $1.1 Million.

HAMILTON, Bermuda, May 19, 2014 (BUSINESS WIRE) -- American Overseas Group Limited (BSX:AORE.BH) (Pink Sheets: AORE.PK) ("AOG" or the "Company") today reported net income of $3.4 million, or $1.24 per diluted share, for the quarter ended December 31, 2013. This compares to a net loss of $21.8 million, or $8.08 per diluted share, for the fourth quarter of 2012. The net income for the year of 2013 was $10.9 million, or $3.96 per diluted share. This compares to a net loss of $22.9 million, or $8.58 per diluted share, for the year of 2012. Property/casualty premiums earned for the year ended December 31, 2013 were $16.8 million compared to $6 million for the year of 2012. The results for the fourth quarter and year of 2013 were primarily impacted by the positive movement on the reserves related to the financial guaranty business, with the property/casualty business recording an approximately breakeven result. Book value per share at December 31, 2013 was $27.54, an increase of 5% from year-end 2012 when book value per share was $26.15.

During the fourth quarter of 2013, operating income was $1.1 million, or $0.39 per diluted share, compared to operating loss of $9.6 million, or $3.54 per diluted share, during the fourth quarter of 2012. Operating income for the year of 2013 was $8.9 million, or $3.25 per diluted share, compared to operating loss of $6.9 million, or $2.57 per diluted share, for the year of 2012. Operating book value per share was $49.38 at December 31, 2013, an increase of 2% 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.

As a cost saving measure, the Company will be publicly reporting financial results and publishing financial statements semi-annually rather than quarterly. This is effective for reporting on periods beginning January 1, 2014.

Subsequent Events:

On February 14, 2014, the Company established an irrevocable trust (the "Series A Trust") for the benefit of the holders of the Series A Preferences Shares. The Company deposited assets valued at $3 million in the Series A Trust. An established trust provider in Bermuda was appointed as Trustee of the Series A Trust. The Company believes that the funds deposited in the Series A Trust will be sufficient to meet its obligation to the holders of the Series A Preference Shares at maturity on December 15, 2066. Establishment of the Series A Trust does not alter the Company's obligations to the holders of the Series A 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 1.75% at December 31, 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 December 31, 2013 and 2012
(dollars in thousands)

	December 31, 2013	December 31, 2012
Assets		
Investments:		
Fixed-maturity securities held as available for sale, at fair value		
(Amortized cost: $137,930 and $154,334)	$ 141,124	$ 165,758
Fixed income security held to maturity, at amortized cost	4,700	-
Equity investments available for sale, at fair value (Cost: $21,000 and $Nil)	23,100	-
Cash and cash equivalents	12,775	36,317
Restricted cash	43,688	45,139
Unsettled trades	9,068	
Accrued investment income	777	1,189
Reinsurance balances receivable, net	10,611	11,561
Funds withheld	12,351	1,533
Salvage and subrogation recoverable	6,684	6,687
Deferred policy acquisition costs	24,264	28,775
Deferred expenses	259	346
Other assets	800	90
Total Assets	$ 290,201	$ 297,396
Liabilities and Equity		
Liabilities:		
Loss and loss expense reserve	$ 21,783	$ 22,247
Unearned premiums	62,002	72,538
Accounts payable and accrued liabilities	745	698
Derivative liabilities	64,974	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 December 31, 2013 and December 31, 2012)	59,700	59,700
Total Liabilities	209,204	220,397
Shareholders' Equity:		
Common shares	2,721	2,677
Additional paid-in capital	232,578	231,891
Accumulated other comprehensive income	5,295	11,424
Retained deficit	(165,650)	(176,004)
Total Shareholders' Equity	74,944	69,988
Noncontrolling interest - Class B preference shares of subsidiary	6,053	7,011
Total Equity	80,997	76,999
Total Liabilities and Equity	$ 290,201	$ 297,396

American Overseas Group Limited

Consolidated Statements of Operations

(unaudited)

For the year ended December 31, 2013 and 2012

(dollars in thousands except share and per share amounts)

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Year Ended December 31, 2013	Year Ended December 31, 2012
Revenues				
Net premiums earned	$ 8,428	$ 9,316	$ 28,383	$ 21,508
Change in fair value of credit derivatives				
Realized gains and other settlements	299	425	1,755	2,271
Unrealized gains (losses)	650	(11,886)	162	(17,073)
Net change in fair value of credit derivatives	949	(11,461)	1,916	(14,802)
Net investment income	1,219	1,421	5,019	6,946
Net realized gains on sale of investments	1,288	382	2,081	737
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)	60	57	(87)	66
Total revenues	**11,944**	**(284)**	**37,313**	**14,455**
Expenses				
Losses and loss adjustment expenses	4,492	16,267	12,318	22,052
Acquisition expenses	2,626	3,771	8,566	9,114
Operating expenses	1,394	1,502	5,558	6,190
Total expenses	**8,512**	**21,539**	**26,442**	**37,356**
Net income (loss)	**$ 3,432**	**$ (21,823)**	**$ 10,871**	**$ (22,901)**
Net income (loss) per common share:				
Basic	$ 1.26	$ (8.16)	$ 4.01	$ (8.60)
Diluted	1.24	(8.08)	3.96	(8.58)
Weighted average number of common shares outstanding:				
Basic	2,721,182	2,675,284	2,714,309	2,662,318
Diluted	2,757,119	2,699,306	2,743,184	2,669,674

	Three Months Ended December 31, 2013			Year Ended December 31, 2013		
Segment information	**P&C**	**FG**	**Total**	**P&C**	**FG**	**Total**
Net earned premiums	$ 4,832	$ 3,596	$ 8,428	$ 16,807	$ 11,576	$ 28,383
Incurred losses	3,463	1,028	4,492	12,746	(428)	12,318
Impairment on credit derivatives	-	359	359	-	(174)	(174)
Acquisition costs	1,624	1,002	2,626	4,424	4,142	8,566
Net underw riting (loss) gain	$ (256)	$ 1,207	$ 951	$ (363)	$ 8,036	$ 7,673
Loss ratio	71.7%	38.6%	57.6%	75.8%	-5.2%	42.8%
Expense ratio	33.6%	27.9%	31.2%	26.3%	35.8%	30.2%
Combined ratio	105.3%	66.5%	88.7%	102.2%	30.6%	73.0%

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

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Year Ended December 31, 2013	Year Ended December 31, 2012
Operating income				
Net income (loss)	$ 3,432	$ (21,823)	$ 10,871	$ (22,901)
Less: Realized (gains) on sale of investments and other-than-temporary impairment losses	(1,288)	(382)	(2,081)	(737)
Less: Unrealized (gains) losses on credit derivatives	(650)	11,886	(162)	17,073
Add back: credit impairment on derivatives	(359)	828	174	(254)
Less: Foreign currency (gains) losses	(60)	(57)	87	(66)
Operating income	$ 1,075	$ (9,549)	$ 8,888	$ (6,885)
Net income (loss) per diluted share	$ 1.24	$ (8.08)	$ 3.96	$ (8.58)
Less: Realized (gains) on sale of investments and other-than-temporary impairment losses	(0.47)	(0.14)	(0.76)	(0.28)
Less: Unrealized (gains) losses on credit derivatives	(0.24)	4.40	(0.06)	6.40
Add back: credit impairment on derivatives	(0.13)	0.31	0.06	(0.10)
Less: Foreign currency (gains) losses	(0.02)	(0.02)	0.03	(0.02)
Operating income per diluted share	$ 0.39	$ (3.54)	$ 3.25	$ (2.57)

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 Dec 31, 2013	As at Dec 31, 2012
Shares outstanding	2,721	2,677
Book Value Per Share	27.54	26.15
Shareholders' Equity (Book Value)	74,944	69,988
Derivative liability (1)	64,792	64,953
Credit impairments on derivatives	(5,363)	(5,537)
Operating book value per share	49.38	48.35
Noncontrolling interest in subsidiary - Class B preference shares	6,053	7,011
Unearned premiums (2)	62,445	73,205
Deferred acquisition costs	(24,264)	(28,775)
Present value of installment premiums (3)	6,471	8,942
Unrealized gains on investments	(5,295)	(11,424)
Adjusted operating book value per share	$ 66.07	$ 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 December 31, 2013 and December 31, 2012, the discount rate was 1.75% and 0.72%, respectively.

The Company has posted its fourth quarter 2013 financial results to its website at www.aoreltd.com under “Investor Information.”

SOURCE: American Overseas Group Limited