American Overseas Group Limited Announces First Quarter 2012 Net Loss Available to Common Shareholders of $4.5 Million and Operating Income of $0.2 Million.

HAMILTON, Bermuda, July 2, 2012 (BUSINESS WIRE) -- American Overseas Group Limited (BSX:AORE.BH) (Pink Sheets: AORE.PK) ("AOG" or the "Company") today reported first quarter 2012 net loss available to common shareholders of $4.5 million, or $1.69 per diluted share. This compares to net income available to common shareholders of $6.0 million, or $2.28 per diluted share, for the first quarter 2011.

During the first quarter of 2012, operating income, a non GAAP financial measure, was $0.2 million, or $0.08 per diluted share, compared to operating income of $4.8 million, or $1.83 per diluted share, during the first quarter of 2011.

The Company's net income (loss) is calculated in conformity with U.S. generally accepted accounting principles ("GAAP"). The Company also provides information regarding its operating income, a non-GAAP financial measure, because the Company's management and Board of Directors, as well as many research analysts and investors, also evaluate financial performance on the basis of operating income, which excludes non-operating items such as realized investment gains or losses, unrealized gains or losses on credit derivatives and foreign currency gains or losses. Please refer to "Explanation of Non-GAAP Financial Measures" below.

Commenting on the financial results, the Company's Chief Executive Officer, David Steel, noted that, "Our 2012 first quarter net loss was largely the result of a $6.3 million unrealized loss in the change in fair value of credit derivatives during the period and to a lesser extent loss development on our financial guaranty reinsurance exposures. As noted in the past, we view operating income, which among other items excludes unrealized gains and losses on derivatives, as a better measure of quarterly performance. Our 2012 first quarter operating income of $0.2 million was largely driven by loss development primarily related to our US RMBS exposures."

Summary of Operating Results

The Company reported a net loss of $4.5 million for the quarter ended March 31, 2012.

Earned premiums in the first quarter 2012 of $3.0 million were 32% lower than the $4.4 million earned in the first quarter 2011. After eliminating accelerated premiums from refundings of $0.7 million from total earned premiums, earned premiums in the first quarter 2012 were $2.3 million; this was 26% lower than the comparable 2011 period, which included accelerated premiums from refundings of $1.3 million. The decrease in earned premiums in the first quarter 2012 as compared to the 2011 period was primarily due to commutations and run off of the insured portfolio.

Net change in fair value of credit derivatives totaled a loss of $5.8 million in the first quarter 2012, compared to a $2.5 million gain in the first quarter of 2011. Net change in fair value of credit derivatives for the first quarters of 2012 and 2011 were comprised of $6.3 million in unrealized losses and $1.0 million in unrealized gains on derivatives, respectively, and $0.6 million and $1.5 million of realized gains, respectively. The net unrealized loss in the first quarter 2012 was primarily attributable to: (i) the decrease in the adjustment for the Company's own non-performance risk of $27.8 million, offset by (ii) the decrease in gross unrealized losses on credit derivative policies of $21.5 million. The decrease in gross unrealized losses on credit derivative policies was primarily due to improvements in pricing across the majority of the portfolio. In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 820 - "Fair Value Measurements and Disclosures" ("ASC 820"), the Company calculates an adjustment for its own non-performance risk. The effect of the ASC 820 requirement on AOG's derivative liabilities on the balance sheet was a reduction of $69.9 million at March 31, 2012.

Net investment income for the first quarter 2012 was $2.1 million, 13% below the $2.4 million recorded in the first quarter 2011. The decrease in investment income in the first quarter 2012 was primarily the result of a decline in the book yield from 3.3% as of March 31, 2011, to 2.7% as of March 31, 2012.

There were no realized gains on investments for the first quarter 2012 compared to $0.7 million in realized gains for the same period in 2011.

Losses and loss adjustment expenses were $0.7 million in the first quarter 2012, contributing to a loss ratio of 23%, compared to losses and loss adjustment expenses of $0.4 million and a loss ratio of 9% for the comparable 2011 period. The increase in the 2012 loss ratio was primarily attributable to further adverse development on US residential mortgage backed securities ("RMBS") policies.

Acquisition expenses were $1.5 million in the first quarter of 2012 compared to $1.9 million for the comparable 2011 period. Acquisition expenses are closely related to earned premiums, and the decrease in acquisition expenses for the first quarter 2012 as compared to the comparable 2011 period was also due to the decrease in earned premiums in the period.

First quarter 2012 operating expenses of $1.8 million were $0.1 million, or 5%, below the level in the first quarter of 2011. The decrease in operating expenses reflects the Company's cost reduction efforts.

Balance Sheet

Total assets of $400.1 million at March 31, 2012 were $1.1 million below the level at December 31, 2011. This decrease was primarily related to the reduction in deferred policy acquisition costs and net reinsurance balances receivable due to the run off of the Company’s insured portfolio and was offset by the increase in the Company’s recoverable on paid losses. Shareholders' equity of $88.9 million was $5.0 million, or 5%, below the level at December 31, 2011, primarily due to unrealized losses in the first quarter 2012, together with the net loss from operations. Book value per share was $33.63, a decrease of 5.3% from year-end 2011. Operating book value and adjusted operating book value per share, both of which are non-GAAP financial measures, were $51.59 and $79.47, respectively, at March 31, 2012, compared to $51.64 and $80.20, respectively, at December 31, 2011.

Subsequent Events:

On June 11, 2012, Financial Guaranty Insurance Company (“FGIC”), one of the Company’s ceding companies, announced that Benjamin M. Lawsky, Superintendent of the New York State Department of Financial Services, filed a verified petition with the Supreme Court of the State of New York (the “Court”) for an order of rehabilitation (i) appointing the Superintendent as Rehabilitator of FGIC; (ii) directing the Rehabilitator to take possession of the property and assets of FGIC and to conduct its business; and (iii) directing the Rehabilitator to take steps toward removing the causes and conditions which have made the rehabilitation proceeding necessary. FGIC has consented to the commencement of the rehabilitation proceeding. On June 11, 2012, the Court signed the Order to Show Cause. On June 28, 2012, a hearing was held and the Rehabilitation Order was signed. The Superintendent, in his capacity as Rehabilitator, intends to file a plan of rehabilitation that will provide fair and equitable treatment of FGIC’s policyholders and other creditors.

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 consideration of other reinsurance businesses, its expense reduction measures and the effects of the Consolidation. 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 any 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 the Company's operating subsidiary American Overseas Reinsurance Company Limited (the "Operating Subsidiary") 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 its customers; (vi) more severe or more frequent losses associated with the Operating Subsidiary's insured 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 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 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 1.04% at March 31, 2012 and 0.83% at December 31, 2011);

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 the Operating Subsidiary'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 the Operating Subsidiary'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., has historically provided financial guaranty reinsurance for U.S. and international public finance and structured finance transactions. More information can be found at www.aoreltd.com.

American Overseas Group Limited

Consolidated Balance Sheets

(unaudited)

As at March 31, 2012 and December 31, 2011

(dollars in thousands)

	March 31, 2012	December 31, 2011
Assets		
Investments:		
Fixed-maturity securities held as available for sale, at fair value (Amortized cost: $232,546 and $261,914)	$ 244,887	$ 274,809
Cash and cash equivalents	8,794	13,253
Restricted cash	83,420	49,429
Accrued investment income	1,543	1,593
Reinsurance balances receivable, net	13,103	13,505
Recoverables on paid losses	6,578	6,158
Deferred policy acquisition costs	40,832	41,890
Deferred expenses	412	433
Other assets	563	153
Total Assets	$ 400,132	$ 401,223
Liabilities and Equity		
Liabilities:		
Loss and loss expense reserve	$ 80,619	$ 80,998
Unearned premiums	107,989	110,187
Accounts payable and accrued liabilities	1,314	1,121
Derivative liabilities	54,591	48,303
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 March 31, 2012 and December 31, 2011)	59,700	59,700
Total Liabilities	304,213	300,309
Shareholders' Equity:		
Common shares	2,644	2,643
Additional paid-in capital	231,489	231,468
Accumulated other comprehensive income	12,341	12,895
Retained deficit	(157,566)	(153,103)
Total Shareholders' Equity	88,908	93,903
Noncontrolling interest in subsidiary - Class B preference shares	7,011	7,011
Total Equity	95,919	100,914
Total Liabilities and Equity	$ 400,132	$ 401,223

American Overseas Group Limited

Consolidated Statements of Operations

(unaudited)

For the three months ended March 31, 2012 and 2011

(dollars in thousands except share and per share amounts)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenues		
Net premiums earned	$ 3,026	$ 4,413
Change in fair value of credit derivatives		
Realized gains (losses) and other settlements	574	1,455
Unrealized gains (losses)	(6,334)	1,006
Net change in fair value of credit derivatives	(5,760)	2,461
Net investment income	2,078	2,398
Net realized gains on sale of investments	-	685
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 gains (losses)	190	311
Net gain on extinguishment of redeemable Series A preference shares	-	-
Net gain on extinguishment of long-term debt	-	-
Total revenues	**(466)**	**10,268**
Expenses		
Losses and loss adjustment expenses	739	444
Acquisition expenses	1,498	1,900
Operating expenses	1,760	1,899
Interest expense	-	-
Total expenses	**3,997**	**4,243**
Net income (loss) available to common shareholders	**$ (4,463)**	**$ 6,025**
Net income (loss) per common share:		
Basic	$ (1.69)	$ 2.28
Diluted	(1.69)	2.28
Weighted average number of common shares outstanding:*		
Basic	2,643,243	2,639,717
Diluted	2,644,132	2,648,004

* Shares outstanding and net income (loss) per common share for the quarter ended March 31, 2012, reflect the effects of a 1 for 10 reverse stock split on November 8, 2011.
For comparative purposes, the outstanding shares and net income (loss) per common share for the quarter ended March 31, 2011 have been adjusted to reflect the change in capital structure as if the reverse stock split had occurred in that period.

Reconciliation of net income to operating income:

	Three Months Ended March 31, 2012	2011
Operating income		
Net income (loss) available to common shareholders	$ (4,463)	$ 6,025
Less: Realized (gains) on sale of investments and other-than-temporary impairment losses	-	(685)
Less: Unrealized (gains) losses on credit derivatives	6,334	(1,006)
Add back: credit impairment on derivatives	(1,464)	821
Less: Foreign currency (gains) losses	(190)	(311)
Less: (Gains) on debt and preference shares	-	-
Operating income	$ 217	$ 4,844
Net income (loss) per diluted share	$ (1.69)	$ 2.28
Less: Realized (gains) on sale of investments and other-than-temporary impairment losses	0.00	(0.26)
Less: Unrealized (gains) losses on credit derivatives	2.40	(0.38)
Add back: credit impairment on derivatives	(0.55)	0.31
Less: Foreign currency (gains) losses	(0.07)	(0.12)
Less: (Gains) on debt and preference shares	0.00	0.00
Operating income per diluted share	$ 0.08	$ 1.83

Reconciliation of book value to operating book value and adjusted operating book value:

	As at Mar 31, 2012	As at Dec 31, 2011
Shares outstanding (1)	2,644	2,643
Operating Book Value		
Shareholders' Equity (Book Value)	88,908	93,903
Derivative liability (2)	54,214	47,880
Credit impairments on derivatives	(6,747)	(5,283)
Operating book value per share	51.59	51.64
Noncontrolling interest in subsidiary - Class B preference shares	7,011	7,011
Unearned premiums (3)	108,906	111,123
Deferred acquisition costs	(40,832)	(41,890)
Present value of installment premiums (4)	10,954	12,117
Unrealized gains on investments	(12,341)	(12,895)
Adjusted operating book value per share	$ 79.47	$ 80.20

(1) Shares outstanding and book values per share for the quarter and year ended March 31, 2012 reflect the effects of a 1 for 10 reverse stock split on November 8, 2011. For comparative purposes, the outstanding shares and the book values per share for the quarter ended March 31, 2011 have been adjusted to reflect the change in capital structure as if the reverse stock split had occurred in that period.

(2) Represents only the unrealized gains/(losses) portion of the derivative liability.

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

(4) Estimated present value of future installments, net of ceding commissions, on policies written in credit derivative form only. At March 31, 2012 and December 31, 2011, the discount rate was 1.04% and 0.83%, respectively.

The Company will post its first quarter 2012 financial results to its website at 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:

American Overseas Group Limited
Schroders House, 1st Floor
131 Front Street
Hamilton, HM 12
Bermuda

Attention: David Steel
Telephone: 441-296-6501
Email: info@aoreltd.com

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