**American Overseas Group Limited Announces First Quarter 2013 Net Loss Available to Common Shareholders of $14.0 Million and Operating Income of $4.2 Million.**

HAMILTON, Bermuda, July 2, 2013 (BUSINESS WIRE) -- American Overseas Group Limited (BSX:AORE.BH) (Pink Sheets: AORE.PK) ("AOG" or the "Company") today reported first quarter net loss available to common shareholders of $14.0 million, or $5.13 per diluted share. This compares to net loss available to common shareholders of $4.5 million, or $1.69 per diluted share, for the first quarter 2012.

During the first quarter of 2013, operating income, a non GAAP financial measure, was $4.2 million, or $1.53 per diluted share, compared to operating income of $0.2 million, or $0.08 per diluted share, during the first quarter of 2012.

The Company's net 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 for a description of operating income and for a reconciliation of operating income to net loss.

Commenting on the financial results, the Company's Chief Executive Officer, David Steel, noted that, "Our 2013 first quarter net loss was primarily the result of a $18.3 million unrealized loss within the net change in fair value of credit derivatives during the period. As noted in the past, we view operating income, which excludes unrealized gains and losses on derivatives, as a better measure of quarterly performance. Our 2013 operating income of $4.2 million was primarily driven by public finance refunding activity and by favorable loss development in our financial guaranty book related to our US residential mortgage-backed securities ("RMBS") reinsurance contracts".

"In the first quarter of 2013 we continued to pursue our plan to write new business in the short-tail, non-catastrophe property/casualty reinsurance markets. We believe this new business fits well with the long-tail run-off of the remaining financial guaranty portfolio. We intend to build our property/casualty book prudently as our subsidiary American Overseas Reinsurance Company Limited ("AORE") emerges from run-off."

**Summary of Operating Results**

The Company reported a net loss of $14.0 million for the quarter ended March 31, 2013.

Earned premiums in the first quarter 2013 of $6.8 million were 127% higher than the $3.0 million of earned premiums in the first quarter 2012. After eliminating property/casualty earned premiums of $3.2 million and accelerated premiums from refundings of $1.3 million, core financial guaranty earned premiums in the first quarter of 2013 were $2.3 million. This was consistent with the core financial guaranty earned premiums of $2.3 million for the comparable period of 2012 after eliminating the accelerated premiums from refundings of $0.7 million. There were no property/casualty earned premiums in the first quarter of 2012.

Net change in fair value of credit derivatives totaled a loss of $17.8 million in the first quarter of 2013, compared to a $5.8 million loss in the first quarter of 2012. Net change in fair value of credit derivatives for the first quarters of 2013 and 2012 were comprised of $0.4 million and $0.6 million of realized gains, respectively, and $18.3 million and $6.3 million of unrealized losses, respectively, on derivatives. The net unrealized loss in the first quarter 2013 was primarily attributable to (i) a decrease in the adjustment for the Company's own non-performance risk of $31.9 million, and (ii) a decrease in gross unrealized losses on credit derivative policies of $13.6 million. The decrease in gross unrealized losses on credit derivative policies was primarily due to improvements in pricing across the majority of the Company's 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 ASC 820 on the Company's derivative liabilities on its balance sheet was a reduction of approximately $37.9 million at March 31, 2013.

Net investment income for the first quarter 2013 was $1.3 million, 38% below the $2.1 million recorded in the first quarter 2012. The decrease in investment income in the first quarter 2013 was primarily due to a decrease in the book yield on the portfolio from 2.71% as of March 31, 2012 to 2.66% as of March 31, 2013 and the reduction of the size of the investment portfolio as a result of the commutation payment made to Financial Guaranty Insurance Company in the fourth quarter of 2012.

Realized gains on investments for the first quarter 2013 were $0.1 million. There were no realized gains or losses for the same period in 2012.

Losses and loss adjustment expenses were $0.9 million in the first quarter 2013, contributing to a loss ratio of 13%, compared to losses and loss adjustment expenses of $0.7 million and a loss ratio of 23% for the comparable 2012 period. The decrease in the quarter ended March 31, 2013 loss ratio was primarily attributable to favorable development on RMBS policies.

Acquisition expenses were $1.9 million in the first quarter of 2013 compared to $1.5 million for the comparable 2012 period. The increase in acquisition expenses in the quarter ended March 31, 2013 as compared to the comparable 2012 period was primarily attributable to $0.8 million of acquisition expenses related to the property/casualty business.

First quarter 2013 operating expenses of $1.3 million were $0.5 million, or 25%, below operating expenses in the first quarter of 2012. The decrease in operating expenses for the period ended March 31, 2013 as compared to the first quarter of 2012 was primarily due to a reduction in legal fees.

**Balance Sheet**

Total assets of $298.0 million at March 31, 2013 were $0.6 million, or 0.2%, above the level of total assets at December 31, 2012. This increase was primarily related to investment income and an increase in the recoveries of paid losses. Shareholders' equity of $55.4 million at March 31, 2013 was $14.6 million, or 21%, below the level of shareholders' equity at December 31, 2012, primarily due to the net loss in the first quarter 2013. Book value per share was $20.5, a decrease of 22% from year-end 2012, when book value per share was $26.2. Operating book value per share and adjusted operating book value per share, both of which are non-GAAP financial measures, were $49.1 and $66.5, respectively, at March 31, 2013, an increase of 1% and a decrease of less than 1%, respectively, from year-end 2012 when operating book value per share and adjusted operating book value per share were $48.4 and $66.6, respectively. The Company provides information regarding operating book value per share and adjusted operating book value per share because the Company's management and Board of Directors, as well as many research analysts and investors, evaluate book value on the basis of operating book value, the calculation of which includes adding back the unrealized gain or loss portion of the Company's derivative liability, excluding the impact of credit impairments. Please refer to "Explanation of Non-GAAP Financial Measures" below for a description of operating book value per share and adjusted operating book value per share and a reconciliation of those measures to book value per share.

**Subsequent Events:**

On May 6, 2013, Assured Guaranty Ltd. and its subsidiaries ("Assured") announced that they had reached a settlement with UBS AG ("UBS") resolving their claims with respect to various U.S. residential mortgage-backed securities ("RMBS") transactions insured by Assured, including claims relating to reimbursement for breaches of representations and warranties ("R&W"). Under the settlement, UBS is required to make an initial cash payment to Assured of $358 million. Additionally, UBS is required to reimburse Assured for a portion of all future losses on certain transactions under a collateralized loss-sharing reinsurance agreement to be put in place by the third quarter of 2013. Assured has announced that this settlement resolves all RMBS claims that Assured has asserted against UBS, including those that have been in litigation.

On June 21, 2013, Assured announced that they and Flagstar Bank have entered into a Settlement Agreement concerning Assured's litigation against Flagstar Bank for breaches of R&W in connection with insured RMBS. The agreement follows a February 5, 2013 decision by the United States District Court for the Southern District of New York in favor of Assured. As part of the settlement, Flagstar Bank is required to make a cash payment to Assured of $105 million. Flagstar also is required to reimburse Assured in full for all future claims on certain of Assured's insurance policies. Additionally, Flagstar Bank has agreed not to appeal the decision reached by the United States District Court for the Southern District of New York. Assured has announced that the comprehensive settlement resolves all of its RMBS claims against Flagstar Bank and releases both parties from any and all other future RMBS-related claims between the parties.

The Company has determined that a number of policies ceded to the Company by Assured would be affected by these settlements. The Company anticipates that approximately $1.5 million and $0.4 million, respectively, of its R&W credit will be reduced by initial and future cash receipts on reinsurance ceded to the Company's subsidiary, American Overseas Reinsurance Company Limited on the UBS and Flagstar Bank policies; however, there is considerable uncertainty regarding the timing and amount of these payments and the impact on the Company's consolidated balance sheets and statements of operations at this time. The Company expects to record the impact of these transactions in 2013.

**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 0.77% at March 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., has historically provided financial guaranty reinsurance for U.S. and international public finance and structured finance transactions and in 2012 commenced writing short tail non-catastrophe property/casualty reinsurance. More information can be found at www.aoreltd.com.

**American Overseas Group Limited**

**Consolidated Balance Sheets**

**(unaudited)**

**As at March 31, 2013 and December 31, 2012**

**(dollars in thousands)**

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Fixed-maturity securities held as available for sale, at fair value | | |
| (Amortized cost: $159,023 and $154,334) | $ 169,428 | $ 165,758 |
| Other investments at fair value | 8,595 | - |
| Cash and cash equivalents | 24,375 | 36,317 |
| Restricted cash | 41,997 | 45,139 |
| Accrued investment income | 1,109 | 1,189 |
| Reinsurance balances receivable, net | 11,900 | 11,561 |
| Funds withheld | 4,200 | 1,533 |
| Recoverables on paid losses | 7,479 | 6,687 |
| Deferred policy acquisition costs | 27,938 | 28,775 |
| Deferred expenses | 324 | 346 |
| Other assets | 638 | 90 |
| **Total Assets** | $ 297,983 | $ 297,396 |
| | | |
| **Liabilities and Equity** | | |
| **Liabilities:** | | |
| Loss and loss expense reserve | $ 21,873 | $ 22,247 |
| Unearned premiums | 69,932 | 72,538 |
| Accounts payable and accrued liabilities | 633 | 698 |
| Derivative liabilities | 83,464 | 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 March 31, 2013 and December 31, 2012) | 59,700 | 59,700 |
| **Total Liabilities** | 235,602 | 220,397 |
| | | |
| **Shareholders' Equity:** | | |
| Common shares | 2,707 | 2,677 |
| Additional paid-in capital | 232,180 | 231,891 |
| Accumulated other comprehensive income | 10,500 | 11,424 |
| Retained deficit | (190,017) | (176,004) |
| **Total Shareholders' Equity** | 55,370 | 69,988 |
| | | |
| Noncontrolling interest - Class B preference shares of subsidiary | 7,011 | 7,011 |
| **Total Equity** | 62,381 | 76,999 |
| | | |
| **Total Liabilities and Equity** | $ 297,983 | $ 297,396 |

**American Overseas Group Limited**

**Consolidated Statements of Operations**

**(unaudited)**

**For the three months ended March 31, 2013 and 2012**

**(dollars in thousands except share and per share amounts)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| **Revenues** | | |
| Net premiums earned | $ 6,813 | $ 3,026 |
| Change in fair value of credit derivatives | | |
| Realized gains and other settlements | 426 | 574 |
| Unrealized (losses) | (18,258) | (6,334) |
| Net change in fair value of credit derivatives | (17,832) | (5,760) |
| Net investment income | 1,320 | 2,078 |
| 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) gains | (224) | 190 |
| **Total revenues** | **(9,876)** | **(466)** |
| **Expenses** | | |
| Losses and loss adjustment expenses | 942 | 739 |
| Acquisition expenses | 1,862 | 1,498 |
| Operating expenses | 1,333 | 1,760 |
| **Total expenses** | **4,137** | **3,997** |
| **Net (loss) available to common shareholders** | **$ (14,013)** | **$ (4,463)** |
| Net (loss) per common share: | | |
| **Basic** | $ (5.18) | $ (1.69) |
| **Diluted** | (5.13) | (1.69) |
| Weighted average number of common shares outstanding: | | |
| Basic | 2,706,279 | 2,643,243 |
| Diluted | 2,733,241 | 2,644,132 |

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

| | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| **Operating income** | | |
| Net (loss) available to common shareholders | $ (14,013) | $ (4,463) |
| Less: Realized (gains) on sale of investments and other-than-temporary impairment losses | (46) | - |
| Less: Unrealized losses on credit derivatives | 18,258 | 6,334 |
| Add back: credit impairment on derivatives | (238) | (1,464) |
| Less: Foreign currency losses (gains) | 224 | (190) |
| Operating income | $ 4,184 | $ 217 |
| | | |
| Net (loss) per diluted share | $ (5.13) | $ (1.69) |
| Less: Realized (gains) on sale of investments and other-than-temporary impairment losses | (0.02) | 0.00 |
| Less: Unrealized losses on credit derivatives | 6.68 | 2.40 |
| Add back: credit impairment on derivatives | (0.09) | (0.55) |
| Less: Foreign currency losses (gains) | 0.08 | (0.07) |
| Operating income per diluted share | $ 1.53 | $ 0.08 |

**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 Mar 31, 2013 | As at Dec 31, 2012 |
|---|---|---|
| Shares outstanding | 2,707 | 2,677 |
| Book Value Per Share | 20.46 | 26.15 |
| Shareholders' Equity (Book Value) | 55,370 | 69,988 |
| Derivative liability (1) | 83,211 | 64,953 |
| Credit impairments on derivatives | (5,776) | (5,537) |
| Operating book value per share | 49.07 | 48.35 |
| Noncontrolling interest in subsidiary - Class B preference shares | 7,011 | 7,011 |
| Unearned premiums (2) | 70,582 | 73,205 |
| Deferred acquisition costs | (27,938) | (28,775) |
| Present value of installment premiums (3) | 8,011 | 8,942 |
| Unrealized gains on investments | (10,500) | (11,424) |
| Adjusted operating book value per share | $ 66.49 | $ 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 March 31, 2013 and December 31, 2012, the discount rate was 0.77% and 0.72%, respectively.

The Company has posted its first quarter 2013 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:

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