American Overseas Group Limited Announces Third Quarter 2012 Net Income Available to Common Shareholders of $5.8 Million and Operating Income of $0.9 Million.

HAMILTON, Bermuda, December 21, 2012 (BUSINESS WIRE) -- American Overseas Group Limited (BSX:AORE.BH) (Pink Sheets: AORE.PK) ("AOG" or the "Company") today reported third quarter 2012 net income available to common shareholders of $5.8 million, or $2.20 per diluted share. This compares to net income available to common shareholders of $26.9 million, or $10.17 per diluted share, for the third quarter 2011. Net loss available to common shareholders for the nine month period ended September 30, 2012 was $1.1 million, or $0.41 per diluted share, compared to net income of $31.4 million, or $11.86 per diluted share, for the nine month period ended September 30, 2011.

During the third quarter of 2012, operating income, a non GAAP financial measure, was $0.9 million, or $0.35 per diluted share, compared to an operating loss of $8.0 million, or $3.02 per diluted share, during the third quarter of 2011. Operating income for the first nine months of 2012 was $2.7 million, or $1.01 per diluted share, compared to an operating loss of $5.7 million, or $2.13 per diluted share, for the nine month period ended September 30, 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 for a description of operating income and for a reconciliation of operating income to net income.

Summary of Operating Results

Commenting on the financial results, the Company's Chief Executive Officer, David Steel, noted that, "Our 2012 third quarter net income was largely the result of a $4.8 million net change in fair value of credit derivatives during the period. As noted in the past, we view operating income, which excludes among other items unrealized gains and losses on derivatives, as a better measure of quarterly performance. Our 2012 third quarter operating income of $0.9 million was largely driven by earned premiums net of our loss development primarily related to our US RMBS exposures. For the first nine months of 2012, operating income was $2.7 million."

Earned premiums in the third quarter 2012 of $3.8 million were 7% lower than the $4.1 million earned in the third quarter 2011. After eliminating accelerated premiums from refundings of $1.1 million from total earned premiums, earned premiums in the third quarter 2012 were $2.7 million; this was the same as the comparable 2011 period, which included accelerated premiums from refundings of $1.4 million. Earned premiums for the nine month period ended September 30, 2012 of $12.2 million were 1% higher than the $12.1 million of earned premiums for the nine month period ended September 30, 2011. After eliminating accelerated premiums from refundings of $4.9 million, earned premiums for the first nine months of 2012 were $7.3 million; this was 22% lower than the comparable period in 2011, which included accelerated premiums from refundings of $2.8 million. The decrease in earned premiums in the first nine months of 2012 as compared to the respective 2011 period was primarily due to commutations and run off of the reinsured portfolio.

Net change in fair value of credit derivatives totaled a gain of $4.8 million in the third quarter of 2012, compared to a $34.2 million gain in the third quarter of 2011. Net change in fair value of credit derivatives for the third quarter of 2012 was comprised of $4.2 million in unrealized gains and $0.6 million of realized gains. Net change in fair value of credit derivatives for the third quarter of 2011 was comprised of $33.4 million in unrealized gains on derivatives, and $0.8 million of realized gains. The net unrealized gain in the third quarter 2012 was primarily attributable to: (i) the decrease in gross unrealized losses on credit derivative policies of $41.0 million as reported to us by our primary insurers, offset by (ii) the decrease in the adjustment for the Company's own non-performance risk of $36.8 million. The decrease in gross unrealized losses on credit derivative policies was primarily due to improvements in pricing across the portfolio of collateralized debt obligations and other asset backed securities written in credit derivative form. 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 $71.6 million at September 30, 2012. Net change in fair value of credit derivatives for the nine month periods ended September 30, 2012 and 2011 were a $3.3 million loss and a $35.3 million gain, respectively.

Net investment income for the third quarter 2012 was $1.6 million, 33% below the $2.4 million recorded in the third quarter 2011. For the nine month period ended September 30, 2012, net investment income was $5.5 million, 24% below the $7.2 million recorded in the nine month period ended September 30, 2011. The decrease in investment income in the three and nine months ended September 30, 2012 was primarily the result of a decline in the book yield on the Company's investments from 3.1% as of September 30, 2011, to 2.51% as of September 30, 2012.

Realized gains on investments for the third quarter 2012 were $0.4 million compared to $1.5 million in realized gains for the same period in 2011. For the nine month periods ended September 30, 2012 and 2011, realized gains on investments were $0.4 million and $2.2 million, respectively.

Losses and loss adjustment expenses were $1.7 million in the third quarter 2012, contributing to a loss ratio of 45%, compared to losses and loss adjustment expenses of $9.3 million and a loss ratio of 227% for the comparable 2011 period. For the nine month period ended September 30, 2012, losses and loss adjustment expenses were $5.8 million, contributing to a loss ratio of 48%, compared to losses of $12.9 million and a loss ratio of 107% for the comparable period in 2011. The decrease in the loss ratio during the nine months ended September 30, 2012 compared to the same period in 2011 was primarily attributable to adverse development on US residential mortgage backed securities ("RMBS") policies in the first nine months of 2011.

Acquisition expenses were $1.5 million in the third quarter of 2012 compared to $3.7 million for the comparable 2011 period. Acquisition expenses for the nine months ended September 30, 2012 and 2011 were $5.3 million and $7.2 million, respectively. The decrease in acquisition expenses in the three and nine month periods ended September 30, 2012 was primarily due to the write off, during the nine months ended September 30, 2011, of $2.1 million on Deferred Acquisition Costs ("DAC") which were considered irrecoverable. There was no such comparable write off for the nine months ended September 30, 2012. Excluding this write off, acquisition expenses are closely related to earned premiums, and the change in acquisition costs for the three and nine month periods ended September 30, 2012 and 2011 is consistent with the change in earned premiums in the respective periods.

Third quarter 2012 operating expenses of $1.6 million were $0.1 million, or 6%, below the level in the third quarter of 2011. For the nine months ended September 30, 2012 and 2011, operating expenses were $4.7 million and $5.3 million, respectively. The decrease in operating expenses reflects the Company's cost reduction efforts.

Balance Sheet

Total assets of $374.3 million at September 30, 2012 were $26.9 million below the level at December 31, 2011. This decrease was primarily attributable to losses that were settled in 2012 as well as the reduction in DAC and net reinsurance balances receivable due to the run off of the Company's reinsured portfolio. Shareholders' equity of $93.4 million at September 30, 2012 was $0.5 million, or 0.1%, below the level at December 31, 2011, primarily due to the net loss from operations for the first nine months of 2012. Book value per share was $34.96, a decrease of 1.6% from year-end 2011. Operating book value per share and adjusted operating book value per share, both of which are non-GAAP financial measures, were $52.45 and $77.14, respectively, at September 30, 2012, compared to $51.64 and $80.20, respectively, at December 31, 2011. 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 for a reconciliation of each to book value.

Subsequent Events:

FGIC Commutation

On October 22, 2012 the Company completed a commutation entered into by its operating subsidiary, American Overseas Reinsurance Company Limited ("AORE") and Financial Guaranty Insurance Company ("FGIC"). Pursuant to the commutation, AORE made a commutation payment to FGIC in the amount of $64.8 million in return for a full commutation and release of all of AORE's obligations to FGIC. The FGIC commutation would have resulted in a GAAP loss of approximately $13.7 million if it had been completed at September 30, 2012.

Re-domestication

On December 7, 2012 AORE completed its re-domestication from Bermuda to Barbados. In connection with the re-domestication, the Barbados Financial Services Commission (the "Barbados FSC") licensed AORE as an Exempt Insurance Company in accordance with the Barbados Exempt Insurance Act 1983. AORE has engaged the services of a local Barbados management company and established a principal representative in Barbados. The Barbados FSC also approved AORE's business plan to begin writing property/casualty reinsurance while continuing to run-off its existing financial guaranty reinsurance portfolio.

Property/Casualty Reinsurance

AORE has significantly deleveraged its balance sheet over the past four years through a series of commutations that have reduced the par value of the securities it has reinsured from $48.7 billion in 2008 to $9.8 billion as of September 30, 2012, after giving effect to the FGIC commutation on a pro-forma basis. While AORE remains willing to entertain further commutations, such transactions will only be pursued on economically acceptable terms. Accordingly, there can be no assurance that the run-off of its financial guaranty portfolio will be completed in a time frame that is any faster than the scheduled pay-down of its reinsured obligations. Due to the nature of some of the credits in the financial guaranty portfolio, this process could conceivably run into the next century.

The Company will seek to enhance shareholder value by re-activating AORE in a way that produces incremental cash flow and earnings. Accordingly, AORE intends to enter the property/casualty reinsurance business before year-end, initially focusing on short-tail, low-volatility, non-catastrophe exposed lines that fit well with the long-tail run-off of the remaining financial guaranty portfolio.

Orpheus Group Ltd. (collectively with its wholly-owned subsidiaries, "Orpheus") owned 43.21% of the outstanding common shares of AOG as of September 30, 2012. Orpheus has actively engaged in the property/casualty reinsurance business for over ten years. The Company views its affiliation with Orpheus as strategically important and advantageous to AORE's plan to enter the property/casualty reinsurance business.

AORE plans to leverage Orpheus' long-standing customer relationships, underwriting expertise and operational infrastructure, among other potential benefits. Reid Street Services Ltd. ("RSSL"), a wholly-owned subsidiary of Orpheus which will continue to provide management services to both AOG and AORE, also provides management, underwriting, surveillance and operational support to Orpheus' operating subsidiaries engaged in the property/casualty reinsurance business. The Company expects that its affiliation with Orpheus will enable AORE to begin writing new business immediately at a modest incremental cost. AORE plans to build its property/casualty book prudently as it emerges from run-off.

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 NSA reinsurance, its consideration of 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 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 AORE has a concentration of its reinsurance in force; (iv) legislative, regulatory and court 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 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 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 0.62% at September 30, 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 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 AORE's 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. More information can be found at www.aoreltd.com.

American Overseas Group Limited

Consolidated Balance Sheets

(unaudited)

As at September 30, 2012 and December 31, 2011

(dollars in thousands)

	September 30, 2012	December 31, 2011
Assets		
Investments:		
Fixed-maturity securities held as available for sale, at fair value (Amortized cost: $172,875 and $261,914)	$ 186,005	$ 274,809
Cash and cash equivalents	16,526	13,253
Restricted cash	115,053	49,429
Accrued investment income	1,234	1,593
Reinsurance balances receivable, net	11,022	13,505
Recoverables on paid losses	6,766	6,158
Deferred policy acquisition costs	36,960	41,890
Deferred expenses	368	433
Other assets	347	153
Total Assets	$ 374,281	$ 401,223
Liabilities and Equity		
Liabilities:		
Loss and loss expense reserve	$ 61,587	$ 80,998
Unearned premiums	98,746	110,187
Accounts payable and accrued liabilities	610	1,121
Derivative liabilities	53,243	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 September 30, 2012 and December 31, 2011)	59,700	59,700
Total Liabilities	273,886	300,309
Shareholders' Equity:		
Common shares	2,671	2,643
Additional paid-in capital	231,763	231,468
Accumulated other comprehensive income	13,130	12,895
Retained deficit	(154,180)	(153,103)
Total Shareholders' Equity	93,384	93,903
Noncontrolling interest - Class B preference shares of subsidiary	7,011	7,011
Total Equity	100,395	100,914
Total Liabilities and Equity	$ 374,281	$ 401,223

American Overseas Group Limited

Consolidated Statements of Operations

(unaudited)

For the three and nine months ended September 30, 2012 and 2011

(dollars in thousands except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Revenues				
Net premiums earned	$ 3,797	$ 4,073	$ 12,192	$ 12,097
Change in fair value of credit derivatives				
Realized gains and other settlements	599	791	1,846	772
Unrealized gains (losses)	4,180	33,377	(5,188)	34,501
Net change in fair value of credit derivatives	4,779	34,168	(3,341)	35,273
Net investment income	1,562	2,425	5,525	7,173
Net realized gains on sale of investments	355	1,512	355	2,206
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)	105	(519)	8	(7)
Total revenues	**10,599**	**41,659**	**14,739**	**56,742**
Expenses				
Losses and loss adjustment expenses	1,665	9,291	5,785	12,855
Acquisition expenses	1,540	3,745	5,343	7,201
Operating expenses	1,553	1,689	4,689	5,258
Total expenses	**4,759**	**14,725**	**15,817**	**25,314**
Net income (loss) available to common shareholders	**$ 5,839**	**$ 26,934**	**$ (1,078)**	**$ 31,428**
Net income (loss) per common share:				
Basic	$ 2.20	$ 10.19	$ (0.41)	$ 11.90
Diluted	2.20	10.17	(0.41)	11.86
Weighted average number of common shares outstanding:*				
Basic	2,654,259	2,643,051	2,648,248	2,641,815
Diluted	2,654,538	2,648,037	2,650,049	2,649,152

* Shares outstanding and net income (loss) per common share for the quarter and nine months ended September 30, 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 and nine months ended September 30, 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 September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Operating income				
Net income (loss) available to common shareholders	$ 5,839	$ 26,934	$ (1,078)	$ 31,428
Less: Realized (gains) on sale of investments and other-than-temporary impairment losses	(355)	(1,512)	(355)	(2,206)
Less: Unrealized (gains) losses on credit derivatives	(4,180)	(33,377)	5,188	(34,501)
Add back: credit impairment on derivatives	(271)	(554)	(1,082)	(398)
Less: Foreign currency (gains) losses	(105)	519	(8)	7
Operating income	$ 928	$ (7,990)	$ 2,664	$ (5,670)
Net income (loss) per diluted share	$ 2.20	$ 10.17	$ (0.41)	$ 11.86
Less: Realized (gains) on sale of investments and other-than-temporary impairment losses	(0.13)	(0.57)	(0.13)	(0.83)
Less: Unrealized (gains) losses on credit derivatives	(1.57)	(12.60)	1.95	(13.02)
Add back: credit impairment on derivatives	(0.10)	(0.21)	(0.41)	(0.15)
Less: Foreign currency (gains) losses	(0.04)	0.20	(0.00)	0.00
Operating income per diluted share	$ 0.35	$ (3.02)	$ 1.01	$ (2.13)

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

	As at September 30, 2012	As at Dec 31, 2011
Shares outstanding (1)	2,671	2,643
Book Value Per Share	34.96	35.53
Shareholders' Equity (Book Value)	93,384	93,903
Derivative liability (2)	53,068	47,880
Credit impairments on derivatives	(6,365)	(5,283)
Operating book value per share	52.45	51.64
Noncontrolling interest in subsidiary - Class B preference shares	7,011	7,011
Unearned premiums (3)	99,434	111,123
Deferred acquisition costs	(36,960)	(41,890)
Present value of installment premiums (4)	9,601	12,117
Unrealized gains on investments	(13,130)	(12,895)
Adjusted operating book value per share	$ 77.14	$ 80.20

(1) Shares outstanding and book values per share for the quarter and nine months ended September 30, 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 and nine months ended September 30, 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 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 September 30, 2012 and December 31, 2011, the discount rate was 0.62% and 0.83%, respectively.

The Company will post its third 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
Maiden House, 1st Floor
131 Front Street
Hamilton, HM 12
Bermuda

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

SOURCE: American Overseas Group Limited