



**Results of Operations for the Year Ended December 31, 2016** - American Overseas Group Limited Announces Net Loss Of \$7.5 Million and Operating Loss of \$14.6 Million For The Year Ended December 31, 2016.

HAMILTON, Bermuda, June 22, 2017 (BUSINESS WIRE) -- American Overseas Group Limited (BSX: AOREF.BH) (Pink Sheets: AOREF.PK) ("AOG" or the "Company") today reported consolidated net loss available to common shareholders of \$7.5 million, or \$169.14 per diluted share, for the year ended December 31, 2016. This compares to consolidated net income available to common shareholders of \$16.2 million, or \$370.36 per diluted share, for the year ended December 31, 2015.

The results for 2016 were impacted by unrealized gains in credit derivatives of \$8.2 million, and include fair value adjustments of \$0.8 million related to the business combination accounting from the combination of Orpheus Group Ltd. and AOG in 2013, when the entities came under common voting control. Book value per share at December 31, 2016 was \$1,530.98, a decline from the book value per share of \$1,650.27 at December 31, 2015.

For the year ended December 31, 2016, the Company had an operating loss of \$14.6 million, or \$328.90 per diluted share, compared to an operating loss of \$14.7 million, or \$334.86 per diluted share for the year ended December 31, 2015. Operating income for the property and casualty segment in 2016 was \$3.0 million, compared to the \$4.9 million operating income in 2015 for this segment. The financial guaranty segment had operating losses of \$16.2 million in 2016, largely driven by losses from the Company's reinsurance of Puerto Rico-related credits.

Gross property and casualty premiums written, which are the primary driver of the Company's fee income, were \$426.3 million for 2016 compared to \$385.0 million for 2015. Fees earned by the Company's management companies were \$14.2 million for 2016 compared to \$13.4 million for 2015 before intercompany consolidation eliminations with their regulated affiliates. EBITDA margins earned on these fees were 27% for 2016 and 44% for 2015. Net earned property and casualty premiums were \$3.6 million for 2016 compared to \$6.4 million for 2015. The drop in net premiums earned is the direct result of the Company's success in deemphasizing the retention of underwriting risk. This contributed to the overall decrease for the property and casualty segment, from operating income of \$4.9 million in 2015 to operating income of \$3.0 million in 2016.

The legacy financial guaranty portfolio of American Overseas Reinsurance Company Limited continues to run-off satisfactorily, notwithstanding loss reserve increases mainly due to the Company's continued exposure to Puerto Rico credits. The financial guaranty operating loss of \$16.2 million in 2016 compares to an operating loss of \$16.1 million in 2015. Insured par outstanding (net of escrowed transactions) declined to \$3.0 billion at December 31, 2016 from \$4.7 billion at December 31, 2015, a 36% decline.

As part of its ongoing capital management efforts, the Company will continue to redirect excess capital within the group to debt reduction unless other compelling opportunities present themselves.

## **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 reviewing the results of our entire portfolio of policies. Management considers credit derivative policies as a normal extension of AORE's financial guaranty business and reinsurance in substance.

## **Explanation of Non-GAAP Financial Measures**

The Company believes that the following non-GAAP financial measure included in this press release serve to supplement GAAP information and is 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. Operating income (loss) is typically used by research analysts and rating agencies in their analysis of the Company.

## **Information About the Company**

American Overseas Group Limited is an insurance holding company incorporated in Bermuda and a tax resident of the United Kingdom. Its operating subsidiaries provide specialty property/casualty insurance, reinsurance and insurance management services. More information can be found at [www.aoreltd.com](http://www.aoreltd.com)

**American Overseas Group Limited**  
**Consolidated Balance Sheets**  
**(unaudited)**  
**As at December 31, 2016 and 2015**  
**(dollars in thousands)**

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
Investments:		
Fixed-maturity securities held as available for sale, at fair value	\$ 80,525	\$ 103,802
Equity investments held as available for sale, at fair value	6,653	6,856
Cash and cash equivalents	71,131	31,131
Restricted cash	48,306	51,403
Accrued investment income	219	203
Premiums receivable	69,419	61,877
Reinsurance balances receivable, net	310,351	277,439
Salvage and subrogation recoverable	1,896	1,214
Deferred policy acquisition costs	157	193
Intangible assets	4,800	4,800
Goodwill	33,050	33,050
Other assets	1,301	2,030
<b>Total Assets</b>	<b>\$ 627,808</b>	<b>\$ 573,998</b>
 <b>Liabilities and Equity</b>		
<b>Liabilities:</b>		
Loss and loss expense reserve	\$ 276,688	\$ 249,204
Unearned premiums	101,198	93,472
Ceded premium payable	77,178	64,380
Payable to general agents	1,334	1,194
Funds withheld	43,334	3,926
Accounts payable and accrued liabilities	4,174	2,316
Liabilities related to segregated accounts	-	-
Redeemable preference shares: (\$0.10 par value and \$1,000 redemption value; authorized shares - 75,000; issued and outstanding shares - 58,600 and 59,700 at December 31, 2016 and 2015, respectively)	9,920	9,787
Derivative liabilities	8,358	16,779
Fair value adjustment	17,044	19,355
Notes payable	19,526	40,000
Non-owned interest in VIE	300	300
Interest payable	516	1,023
Deferred tax liability	45	38
<b>Total Liabilities</b>	<b>559,615</b>	<b>501,774</b>
 <b>Shareholders' Equity:</b>		
Common shares	4,454	4,377
Additional paid-in capital	187,282	186,399
Accumulated other comprehensive income (loss)	301	(2,214)
Retained deficit	(129,897)	(122,390)
<b>Total Shareholders' Equity</b>	<b>62,140</b>	<b>66,171</b>
Non-controlling interest of preferred shares of subsidiaries	6,053	6,053
<b>Total Equity</b>	<b>68,193</b>	<b>72,224</b>
 <b>Total Liabilities and Equity</b>	 <b>\$ 627,808</b>	 <b>\$ 573,998</b>

See Notes to 2016 Consolidated Financial Statements available on American Overseas Group Ltd. Website at [www.aoreltd.com](http://www.aoreltd.com)

**American Overseas Group Limited**  
**Consolidated Statements of Operations**  
**(unaudited)**  
**For years ended December 31, 2016 and 2015**  
**(dollars in thousands, except share and per share amounts)**

	<u>Year ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Net premiums earned	\$ 3,094	\$ 6,424
Fee income	12,091	12,517
Change in fair value of credit derivatives		
Realized gains and other settlements	2,380	459
Unrealized gains	<u>8,162</u>	<u>30,070</u>
Net change in fair value of credit derivatives	<u>10,542</u>	<u>30,529</u>
Net investment income	1,763	2,783
Net realized (losses) on investments	(1,905)	(88)
Fair value adjustment	1,958	2,408
Other income	<u>7</u>	<u>253</u>
<b>Total revenues</b>	<b><u>27,550</u></b>	<b><u>54,826</u></b>
<b>Expenses</b>		
Losses and loss adjustment expenses	14,279	11,584
Acquisition expenses	652	865
Operating expenses	16,456	15,927
Amortization of intangible assets	-	2,238
Other expense	398	280
Interest expense	<u>3,265</u>	<u>5,376</u>
<b>Total expenses</b>	<b><u>35,050</u></b>	<b><u>36,270</u></b>
<b>Net (loss) income available to common shareholders</b>	<b><u>\$ (7,500)</u></b>	<b><u>\$ 18,556</u></b>
Income tax expense	(7)	(7)
<b>Net (loss) income before dividends</b>	<b>(7,507)</b>	<b>18,549</b>
Dividends on preference shares of subsidiary	-	(2,341)
<b>Net (loss) income available to common shareholders</b>	<b><u>\$ (7,507)</u></b>	<b><u>\$ 16,208</u></b>
Net (loss) income per common share:		
Basic	\$ (169.18)	\$ 371.96
Diluted	(169.14)	370.36
Weighted-average number of common shares outstanding:		
Basic	44,371	43,573
Diluted	44,381	43,761

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AMERICAN OVERSEAS GROUP LTD.

NET INCOME AND OPERATING INCOME BY SEGMENT

(dollars in thousands)

December 31, 2016

	Net income available to common shareholders	Net realized loss on sales of investments	Net change in fair value of credit derivatives	Fair value adjustments	Amortization of intangibles	Operating income
<b>Property and casualty:</b>						
Net premiums earned	\$ 3,600					\$ 3,600
Losses and loss adjustment expenses	(2,037)					(2,037)
Acquisition expenses	(896)					(896)
Fee income	12,091					12,091
Operating expenses	(9,740)					(9,740)
Amortization expense	-				-	-
Income tax	(7)					(7)
Property and casualty	3,011	-	-	-	-	3,011
						-
<b>Financial guaranty:</b>						
Net premiums earned	(506)			9,857		9,351
Net change in fair value of credit derivatives	10,542		(8,162)			2,380
Losses and loss adjustment expenses	(12,242)			(4,285)		(16,527)
Acquisition expenses	244			(4,447)		(4,203)
Operating expenses	(7,236)					(7,236)
Financial guaranty	(9,198)	-	(8,162)	1,125	-	(16,235)
						-
<b>Corporate and Investing</b>						
Net investment income	1,763					1,763
Net realized loss on sales of investments	(1,905)	1,905				-
Fair value adjustment	1,958			(1,958)		-
Operating expenses	520					520
Interest expense	(3,265)					(3,265)
Other expense, net of other income	(391)					(391)
Corporate and investing	(1,320)	1,905	-	(1,958)	-	(1,373)
<b>Group total</b>	<b>\$ (7,507)</b>	<b>\$ 1,905</b>	<b>\$ (8,162)</b>	<b>\$ (833)</b>	<b>\$ -</b>	<b>\$ (14,597)</b>

AMERICAN OVERSEAS GROUP LTD.

NET INCOME AND OPERATING INCOME BY SEGMENT

(dollars in thousands)

December 31, 2015

	Net income available to common shareholders	Net realized loss on sales of investments	Net change in fair value of credit derivatives	Fair value adjustments	Amortization of intangibles	Operating income
Property and casualty:						
Net premiums earned	\$ 6,399					\$ 6,399
Losses and loss adjustment expenses	(3,991)					(3,991)
Acquisition expenses	(901)					(901)
Fee income	12,517					12,517
Operating expenses	(9,075)					(9,075)
Amortization expense	(2,238)				2,238	-
Income tax	(7)					(7)
Property and casualty	2,704	-	-	-	2,238	4,942
						-
Financial guaranty:						
Net premiums earned	25			7,060		7,085
Net change in fair value of credit derivatives	30,529		(30,070)			459
Losses and loss adjustment expenses	(7,593)			(5,630)		(13,223)
Acquisition expenses	36			(4,481)		(4,445)
Operating expenses	(5,983)					(5,983)
Financial guaranty	17,014	-	(30,070)	(3,051)	-	(16,107)
						-
Corporate and Investing						
Net investment income	2,783					2,783
Net realized loss on sales of investments	(88)	88				-
Fair value adjustment	2,408			(2,408)		-
Operating expenses	(869)					(869)
Interest expense	(5,376)					(5,376)
Other expense, net of other income	(27)					(27)
Corporate and investing	(1,169)	88	-	(2,408)	-	(3,489)
Group total	\$ 18,549	\$ 88	\$ (30,070)	\$ (5,459)	\$ 2,238	\$ (14,654)