



Results of Operations for the Six Months Ended June 30, 2016 - American Overseas Group Limited Announces Net Loss Of \$12.1 Million and Operating Loss of \$5.5 Million For The Six Months Ended June 30, 2016.

HAMILTON, Bermuda, September 26, 2016 (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 \$12.1 million, or \$273.96 per diluted share, for the six months ended June 30, 2016. This compares to consolidated net income available to common shareholders of \$7.0 million, or \$165.62 per diluted share, for the six months ended June 30, 2015.

The results for the six months ended June 30, 2016 were impacted by unrealized losses on credit derivatives of \$4.6 million, compared to an unrealized gain on credit derivatives of \$15.3 million for the six months ended June 30, 2015. Book value per share at June 30, 2016 was \$1,437.27, a decline from the book value per share of \$1,650.27 at December 31, 2015.

For the six months ended June 30, 2016, the Company had an operating loss of \$5.5 million, or \$124.84 per diluted share, compared to an operating loss of \$9.4 million, or \$220.97 per diluted share for six months ended June 30, 2015. Operating income for the property and casualty segment in 2016 was \$2.7 million, compared to the \$1.0 million operating income in 2015 for this segment. The financial guaranty segment had operating losses of \$6.5 million for the first six months of 2016, largely driven by losses from the Company's reinsurance of Puerto Rico-related credits. This compares to financial guaranty operating losses of \$8.0 million in the first six months of 2015. Interest expense on debt of \$1.8 million was \$1.4 million lower for the first six months of 2016 as compared to the first six months of 2015, due to debt reduction.

Gross property and casualty premiums written, which are the primary driver of the Company's fee income, were \$223.1 million for 2016 compared to \$195.3 million for 2015. Fees earned by the Company's management companies were \$7.6 million for 2016 compared to \$6.8 million for 2015 before intercompany consolidation eliminations with their regulated affiliates. Net earned property and casualty premiums were \$1.9 million for 2016 compared to \$4.1 million for 2015. The drop in net premiums earned is the result of the Company's decision to deemphasize the retention of underwriting risk and shift its focus to a fee-based business within its property and casualty segment. This contributed to the overall improvement for the property and casualty segment, from operating income of \$1.0 million in 2015 to operating income of \$2.7 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 \$6.5 million in 2016 compares to an operating loss of \$8.0 million in 2015.

Operating expenses of \$9.1 million were \$1.5 million higher in the first six months of 2016 as compared to the first six months of 2015. This includes approximately \$1 million of expenses associated with the

closure of the Company's captive management office in Bermuda. The management of the Company's offshore entities has been transitioned to an unrelated third party captive manager, to better align ongoing operating expenses with revenues.

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

American Overseas Group Limited
Consolidated Balance Sheets
(unaudited)
As at June 30, 2016 and December 31, 2015
(dollars in thousands)

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
<u>Assets</u>		
Investments:		
Fixed-maturity securities held as available for sale, at fair value	\$ 91,282	\$ 103,802
Equity investments held as available for sale, at fair value	6,338	6,856
Cash and cash equivalents	29,259	31,131
Restricted cash	52,301	51,403
Accrued investment income	194	203
Premiums receivable	71,158	61,877
Reinsurance balances receivable, net	306,052	277,439
Salvage and subrogation recoverable	2,208	1,214
Deferred policy acquisition costs	191	193
Intangible assets	4,800	4,800
Goodwill	33,050	33,050
Assets held in segregated accounts		
Other assets	2,412	2,030
Total Assets	<u>\$ 599,245</u>	<u>\$ 573,998</u>
 <u>Liabilities and Equity</u>		
Liabilities:		
Loss and loss expense reserve	\$ 259,136	\$ 249,204
Unearned premiums	110,610	93,472
Ceded premium payable	75,667	64,380
Payable to general agents	1,506	1,194
Funds withheld	4,523	3,926
Accounts payable and accrued liabilities	3,537	2,316
Redeemable preference shares: (\$0.10 par value and \$1,000 redemption value; authorized shares - 75,000; issued and outstanding shares - 59,700 at June 30, 2016 and December 31, 2015)	9,963	9,787
Derivative liabilities	21,062	16,779
Notes payable	30,000	40,000
Non-owned interest in VIE	300	300
Interest payable	784	1,023
Fair value adjustment	18,199	19,355
Deferred tax liability	41	38
Total Liabilities	<u>535,328</u>	<u>501,774</u>
 Shareholders' Equity:		
Common shares	4,447	4,377
Additional paid-in capital	187,511	186,399
Accumulated other comprehensive (loss) income	414	(2,214)
Retained deficit	(134,508)	(122,390)
Total Shareholders' Equity	<u>57,864</u>	<u>66,171</u>
Non-controlling interest of preferred shares of subsidiaries	6,053	6,053
Total Equity	<u>63,917</u>	<u>72,224</u>
 Total Liabilities and Equity	 <u>\$ 599,245</u>	 <u>\$ 573,998</u>

See Notes to 2015 Consolidated Financial Statements available on American Overseas Group Ltd. Website at www.aoreltd.com

American Overseas Group Limited
Consolidated Statements of Operations
(unaudited)
For six months ended June 30, 2016 and 2015
(dollars in thousands, except share and per share amounts)

	<u>Six Months ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Revenues		
Net premiums earned	\$ 2,466	\$ 4,174
Fee income	7,267	6,538
Change in fair value of credit derivatives		
Realized gains and other settlements	(103)	251
Unrealized gains	<u>(4,624)</u>	<u>15,288</u>
Net change in fair value of credit derivatives	<u>(4,727)</u>	<u>15,539</u>
Net investment income	1,046	1,485
Net realized gains on investments	(1,899)	49
Fair value adjustment	979	1,204
Other income	<u>-</u>	<u>29</u>
Total revenues	5,132	29,018
Expenses		
Losses and loss adjustment expenses	6,393	7,887
Acquisition expenses	(195)	850
Operating expenses	9,090	7,638
Amortization of intangible assets	-	1,119
Other expense	1,767	172
Interest expense	<u>191</u>	<u>3,136</u>
Total expenses	17,246	20,802
Net income (loss) available to common shareholders	\$ (12,114)	\$ 8,216
Income tax expense	(4)	(4)
Net income (loss) before dividends	(12,118)	8,212
Dividends on preference shares	-	(1,170)
Net income (loss) available to common shareholders	<u>\$ (12,118)</u>	<u>\$ 7,042</u>
Net income (loss) per common share:		
Basic	\$ (273.96)	\$ 166.65
Diluted	(273.96)	165.62
Weighted-average number of common shares outstanding:		
Basic	44,233	42,256
Diluted	44,233	42,518

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AMERICAN OVERSEAS GROUP LTD.

NET INCOME AND OPERATING INCOME BY SEGMENT

(dollars in thousands)

June 30, 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
Property and casualty:						
Net premiums earned	\$ 1,948					\$ 1,948
Losses and loss adjustment expenses	(1,596)					(1,596)
Acquisition expenses	(515)					(515)
Fee income	7,267					7,267
Operating expenses	(4,378)					(4,378)
Amortization expense	-				-	-
Income tax	(4)					(4)
Property and casualty	2,722	-	-	-	-	2,722
						-
Financial guaranty:						
Net premiums earned	518			5,235		5,753
Net change in fair value of credit derivat	(4,727)		4,624			(103)
Losses and loss adjustment expenses	(4,797)			(2,143)		(6,940)
Acquisition expenses	709			(2,040)		(1,331)
Operating expenses	(3,859)					(3,859)
Financial guaranty	(12,156)	-	4,624	1,052	-	(6,480)
						-
Corporate and Investing						
Net investment income	1,046					1,046
Net realized loss on sales of investment:	(1,899)	1,899				-
Fair value adjustment	979			(979)		-
Operating expenses	(851)					(851)
Interest expense	(1,767)					(1,767)
Other expense, net of other income	(192)					(192)
Corporate and investing	(2,684)	1,899	-	(979)	-	(1,764)
Group total	\$ (12,118)	\$ 1,899	\$ 4,624	\$ 73	\$ -	\$ (5,522)

AMERICAN OVERSEAS GROUP LTD.

NET INCOME AND OPERATING INCOME BY SEGMENT

(dollars in thousands)

June 30, 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	\$ 4,112					\$ 4,112
Losses and loss adjustment expenses	(4,661)					(4,661)
Acquisition expenses	(859)					(859)
Fee income	6,538					6,538
Operating expenses	(4,081)					(4,081)
Amortization expense	(1,119)				1,119	-
Income tax	(4)					(4)
Property and casualty	(74)	-	-	-	1,119	1,045
Financial guaranty:						
Net premiums earned	63			3,921		3,984
Net change in fair value of credit derivat	15,539		(15,288)			251
Losses and loss adjustment expenses	(3,226)			(2,815)		(6,041)
Acquisition expenses	9			(3,291)		(3,282)
Operating expenses	(2,950)					(2,950)
Financial guaranty	9,435	-	(15,288)	(2,185)	-	(8,038)
Corporate and Investing						
Net investment income	1,485					1,485
Net realized gain on sales of investment	49	(49)				-
Fair value adjustment	1,204			(1,204)		-
Operating expenses	(608)					(608)
Interest expense	(3,136)					(3,136)
Other expense, net of other income	(143)					(143)
Corporate and investing	(1,149)	(49)	-	(1,204)	-	(2,402)
Group total	\$ 8,212	\$ (49)	\$ (15,288)	\$ (3,389)	\$ 1,119	\$ (9,395)