



AMERICAN OVERSEAS GROUP LIMITED

SIX MONTH REPORT

JUNE 30, 2018

(UNAUDITED)

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Assets		
Fixed-maturity securities held as available for sale, at fair value	\$ 131,887,924	\$ 81,028,049
Equity investments available for sale, at fair value	6,216,420	6,436,614
Cash and cash equivalents	32,942,409	40,173,162
Restricted cash	12,055,687	66,534,599
Accrued investment income	569,937	256,153
Premiums receivable	80,239,939	81,264,067
Reinsurance balances receivable, net	346,432,290	340,700,321
Salvage and subrogation recoverable	336,491	1,707,921
Deferred policy acquisition costs	114,908	100,548
Intangible assets	4,800,000	4,800,000
Goodwill	33,050,000	33,050,000
Other assets	2,062,698	1,899,547
Total assets	\$ 650,708,703	\$ 657,950,981
Liabilities and Shareholders' Equity		
Liabilities:		
Losses and loss expense reserve	\$ 295,940,004	\$ 304,772,603
Unearned premiums	110,532,818	105,689,737
Ceded premium payable	94,460,536	95,195,311
Payable to general agents	976,797	1,478,955
Funds withheld	50,721,353	44,985,364
Accounts payable and accrued liabilities	2,364,373	3,057,300
Redeemable Series A preference shares	6,915,275	10,312,218
Derivative liabilities	279,488	341,843
Notes payable	16,520,907	16,520,907
Non-owned interest in VIE	300,000	300,000
Interest payable	450,770	450,770
Fair value adjustment	14,469,729	15,198,761
Deferred tax liability	33,075	30,975
Total liabilities	593,965,125	598,334,744
Shareholders' equity:		
Common shares	4,611,900	4,555,800
Additional paid-in capital	188,439,846	188,331,207
Accumulated other comprehensive income	502,124	1,189,495
Retained deficit	(142,863,668)	(140,513,641)
Total shareholders' equity	50,690,202	53,562,861
Non-controlling interest of preferred shares in subsidiaries	6,053,376	6,053,376
Total equity	56,743,578	59,616,237
Total liabilities and equity	\$ 650,708,703	\$ 657,950,981

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Six Months Ended	
	June 30,	
	2018	2017
Net premiums earned	\$ 999,214	\$ 1,887,646
Fee income	5,969,480	5,919,440
Net investment income	1,122,709	886,441
Net realized gains/(losses)	1,176	(221,231)
Fair value adjustment	(274,024)	739,469
Net change in fair value of credit derivatives	58,602	3,036,783
Other income	41,086	347,742
Total revenues	7,918,243	12,596,290
Net losses and loss adjustment expenses	1,363,032	12,448,410
Acquisition costs	173,685	259,166
General and administrative expenses	6,974,510	6,912,606
Interest expense	1,095,415	1,188,175
Other expense	74,275	-
Total expenses	9,680,917	20,808,357
Loss before income tax expense and non-controlling interest	(1,762,674)	(8,212,067)
Income tax expense	(2,100)	(3,500)
Net loss before non-controlling interest	(1,764,774)	(8,215,567)
Dividends on Class B preference shares of subsidiary	(585,253)	-
Net loss attributable to common shareholders	\$ (2,350,027)	\$ (8,215,567)
Net loss per common share:		
Basic	\$ (51.30)	\$ (182.08)
Diluted	\$ (51.30)	\$ (182.08)
Weighted-average number of common shares outstanding:		
Basic	45,808	45,120
Diluted	45,808	45,120

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	Six Months Ended	
	June 30,	
	2018	2017
Net loss before non-controlling interest	\$ (1,764,774)	\$ (8,215,567)
Other comprehensive income		
Change in unrealized fair value of investments	(686,195)	578,905
Less: reclassification adjustment for net realized investment (gains)/losses included in income	(1,176)	221,231
Other comprehensive (loss)/income	(687,371)	800,136
Comprehensive loss	\$ (2,452,145)	\$ (7,415,431)

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF EQUITY AND RETAINED DEFICIT
(Unaudited)

	<u>Share capital</u>	<u>Noncontrolling Interest</u>	<u>Additional paid-in-capital</u>	<u>Accumulated other comprehensive income</u>	<u>Retained deficit</u>	<u>Total shareholders' equity</u>
Balance, December 31, 2017	\$ 4,555,800	\$6,053,376	\$ 188,331,207	\$ 1,189,495	\$ (140,513,641)	\$ 59,616,237
Net loss	-	-	-	-	(1,764,774)	(1,764,774)
Share based compensation	56,100	-	108,639	-	-	164,739
Dividends on preference shares	-	-	-	-	(585,253)	(585,253)
Net change in unrealized gains and losses on investments	-	-	-	(687,371)	-	(687,371)
Balance, June 30, 2018	<u>\$ 4,611,900</u>	<u>\$6,053,376</u>	<u>\$ 188,439,846</u>	<u>\$ 502,124</u>	<u>\$ (142,863,668)</u>	<u>\$ 56,743,578</u>

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the year	(1,764,774)	(8,215,567)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net realized (gain) loss on sale of investments	(1,176)	221,231
Net unrealized (gains) on credit derivatives	(58,602)	(3,036,783)
Deferred tax expense	2,100	3,500
Interest expense	1,095,415	1,188,175
Share based compensation	164,739	859,010
Amortization of fair value adjustment	274,025	(739,468)
Amortization of bond discount	88,508	29,488
Changes in operating assets and liabilities:		
Accrued investment income	(313,784)	(53,206)
Premiums receivable	1,024,128	(10,652,047)
Reinsurance balance receivable, net	(5,731,969)	(811,130)
Salvage and subrogation	1,371,430	62,806
Deferred acquisition costs, net	(14,360)	(74,288)
Other assets	(163,151)	(773,358)
Unpaid losses and loss adjustment expenses	(8,832,599)	1,019,836
Unearned premiums	4,843,081	6,168,607
Payable to general agents	(502,158)	173,570
Funds withheld	5,735,989	1,870,840
Ceded premium payable	(734,775)	11,744,590
Accounts payable and accrued liabilities	(692,927)	(1,407,335)
Changes in derivative liability	(3,753)	202,236
Net cash used in operating activities	<u>(4,214,613)</u>	<u>(2,219,293)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of available for sale securities	(91,445,545)	(55,080,811)
Proceeds from sales of investments	40,031,161	29,963,505
Change in restricted cash	54,478,912	(20,591,837)
Net cash provided by (used in) investing activities	<u>3,064,528</u>	<u>(45,709,143)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term note payable	-	(2,000,000)
Interest paid	(1,095,415)	(1,230,657)
Payment on preferred shares	(4,400,000)	(10,000)
Dividends paid on preferred shares	(585,253)	-
Net cash used in financing activities	<u>(6,080,668)</u>	<u>(3,240,657)</u>
Net decrease in cash and cash equivalents	(7,230,753)	(51,169,093)
Cash and cash equivalents - Beginning of year	40,173,162	71,130,790
Cash and cash equivalents - End of year	<u>\$ 32,942,409</u>	<u>\$ 19,961,697</u>

American Overseas Group Limited
Explanatory notes

The interim unaudited consolidated financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (“US GAAP”). These statements should be read in conjunction with the audited consolidated financial statements and notes as of and for the period ended December 31, 2017 for American Overseas Group Limited which are posted on the Company’s website and can be found at www.aoreltd.com under “Financial Information.”

Security Ownership of Executive Officers and Directors

Pursuant to Regulation 6.9(2)(x)(a) and (b) of Section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests of all directors and executive officers of the Company in the common shares of the Company as at June 30, 2018, was 2,290 shares or approximately 4.97% of the common shares outstanding, net of treasury shares.

Equity Compensation of Directors

The table below sets forth the aggregate number of shares underlying option awards and restricted stock unit (“RSU”) awards outstanding for each director as of June 30, 2018 (other than for Ms. Roberts and Mr. Kirkpatrick, whose equity awards are set forth in “Equity Compensation of Executive Officers” below).

Name	Shares Underlying	Shares Underlying	RSUs:
	Options at Jun 30, 2018 (Outstanding)	Options at Jun 30, 2018 (Vested and Exercisable)	
James Zech	29.53	29.53	-
Clement S. Dwyer	7.15	7.15	-
Jose O. Montemayor	-	-	-

Share Options granted to directors under the 2006 Equity Plan vest in four equal annual installments on the first four anniversaries of the date of grant. RSUs vest annually in equal installments over a four-year period.

Equity Compensation of Executive Officers

The following table shows equity awards granted to officers of the Company outstanding at June 30, 2018:

Name	Option Awards				RSU Awards		Restricted Stock Awards Subject to Forfeiture		
	Number of Common Shares Underlying Unexercised Options	Number of Common Shares Underlying Unexercised Options		Option Exercise Price	Option Expiration Date	Number of Shares that Have Not Vested	Market Value of Shares That Have Not Vested ⁽¹⁾	Number of Shares that Have Not Vested	Market Value of Shares That Have Not Vested ⁽¹⁾
		Exercisable	Unexercisable						
Debra J. Roberts	26.15	—	\$915.00	4/26/2019	—	—	—	—	
	250.00	250.00	\$850.00	12/15/2025	—	—	—	—	
	43.75	131.25	\$700.00	3/21/2027	—	—	—	—	
Andrew Kirkpatrick	—	—	—	—	—	—	75.00	\$20,062	
	75.00	75.00	\$850.00	12/15/2025	—	—	—	—	
	37.50	112.50	\$700.00	3/21/2027	—	—	—	—	
	—	—	—	—	15.00	\$4,012	56.25	\$15,046	

(1) Based on the closing price of \$267.49 per share on June 30, 2018.

Options were awarded under our 2006 Equity Plan, and vest in four equal installments on the first four anniversaries of the date of grant. RSUs vest annually in equal installments over a four-year period.

The following table shows options exercised and RSUs vested during 2018:

Name	Option Awards		RSU Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
Debra J. Roberts	—	—	7.00	\$1,785.00 ⁽²⁾
Andrew Kirkpatrick	—	—	15.00	\$4,500.00 ⁽³⁾

(2) Based on the closing price of \$255.00 per share on May 15, 2018, the day of vesting

(3) Based on the closing price of \$300.00 per share on March 26, 2018, the day of vesting

American Overseas Group Limited Corporate Information

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda
www.aoreltd.com

Investor Information

Information about American Overseas Group Limited, can be accessed via our website at www.aoreltd.com.

Requests for copies of the American Overseas Group Limited 2018 semi-annual reports may be made by contacting the Secretary of American Overseas Group Limited at the Corporate Headquarters address above or info@aoreltd.com.

Exchange Listing

American Overseas Group Limited's common shares are listed on the Bermuda Stock Exchange (BSX) located at:

30 Victoria Street
Hamilton, Bermuda
441-292-7212 or -7213
www.bsx.com

Transfer Agent

Computershare

Telephone Number:
Toll free
1-800 522 6645
Toll
1 (201) 680 6578

Mailing Address:
Computershare, Inc.
P.O. BOX 30170
College Station, TX 77842
USA

Web Address: <https://www-us.computershare.com/Investor/Contact/Index>

Independent Registered Auditors

Deloitte Ltd.