



Results of Operations for the Six Months Ended June 30, 2020 - American Overseas Group Limited Announces Net Loss of \$2.3 Million and Operating Loss of \$21.6 Million For the Six Months Ended June 30, 2020.

HAMILTON, Bermuda, September 23, 2020 (BUSINESS WIRE) -- American Overseas Group Limited (BSX: AORE.BH) (Pink Sheets: AOREF.PK) ("AOG" or the "Company") today reported consolidated net loss available to common shareholders of \$2.3 million, or \$48.97 per diluted share, for the six months June 30, 2020. This compares to consolidated net loss available to common shareholders of \$3.8 million, or \$82.18 per diluted share, for the six months ended June 30, 2019.

The results for the six months was driven by losses in the Company's financial guaranty segment related to a commutation of the remaining portfolio of financial guaranty reinsurance business it had assumed from Assured Guaranty Municipal Corp ("AGMC"). Book value per share at June 30, 2020 was \$1,112.19, a decline from the book value per share of \$1,159.08 at December 31, 2019.

For the six months ended June 30, 2020, the Company had an operating loss of \$21.6 million, or \$462.85 per diluted share, compared to an operating loss of \$7.8 million, or \$169.26 per diluted share for the six months ended June 30, 2019. Operating income for the property and casualty segment in 2020 was \$1.0 million, compared to the \$1.7 million operating income in 2019 for this segment. The financial guaranty segment had operating losses of \$22.1 million for 2020, compared to operating losses of \$9.8 million for 2019.

Net earned property and casualty premiums increased \$4.1 million from \$3.9 million in 2019 to \$8.0 million in 2020, driven primarily by increased reinsurance participation on underlying non-standard auto programs in Texas. Loss and loss adjustment expenses as a percentage of earned premium increased from 25.1% to 53.3% driven primarily by lower prior year favorable development, however underwriting income increased from \$0.2 million to \$1.3 million driven by higher volume. Fee income decreased from \$6.1 million to \$5.3 million as underlying direct written premium volumes declined primarily impacted by temporary business contractions related to COVID-19. P&C operating income declined from \$1.7 million to \$1.0 million primarily driven by allocation of operating expenses from American Overseas Reinsurance Company Limited ("AORE") as it transitioned to an affiliate reinsurer of non-standard auto business.

In 2020, the financial guaranty reinsurance business at AORE was eliminated as a result of the commutation with AGMC. The aggregate outstanding par value of the reinsurance portfolio commuted was \$345.0 million. This commutation was the primary driver of the operating loss of \$22.1 million in 2020, compared to operating losses of \$9.8 million in 2019 which were driven by net losses associated with the commutation of \$1.065 billion of outstanding par during the second quarter of 2019, as well as unfavorable development on outstanding losses. As of June 30, 2019, outstanding par within the financial guaranty segment was \$372 million. As of June 30, 2020, AORE no longer has any financial guaranty exposure remaining.

Overall operating expenses excluding restructuring charges declined \$0.4 million from \$6.7 million to \$6.3 million for the six months ended June 2020 and 2019.

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

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American Overseas Group Limited
Consolidated Balance Sheets
(unaudited)
As at June 30, 2020 and December 31, 2019
(dollars in thousands)

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
<u>Assets</u>		
Investments:		
Fixed-maturity securities held as available for sale, at fair value	\$ 63,989	\$ 129,748
Equity investments held as available for sale, at fair value	4,320	1,181
Cash and cash equivalents	22,497	22,602
Restricted cash	666	10,557
Accrued investment income	329	675
Premiums receivable	79,032	81,000
Deferred insurance premiums	107,834	125,728
Reinsurance balances receivable, net	199,802	210,405
Salvage and subrogation recoverable	-	386
Deferred policy acquisition costs	3,676	515
Intangible assets	4,800	4,800
Goodwill	33,050	33,050
Other assets	4,690	3,184
Total Assets	\$ 524,685	\$ 623,831
 <u>Liabilities and Equity</u>		
Liabilities:		
Loss and loss expense reserve	\$ 194,855	\$ 263,686
Deferred commission income	2,579	-
Unearned premiums	111,755	128,793
Ceded premium payable	80,116	89,078
Payable to general agents	3,582	3,087
Funds withheld	54,223	52,794
Accounts payable and accrued liabilities	5,660	5,071
Redeemable preference shares: (\$0.10 par value and \$1,000 redemption value; authorized shares - 75,000; issued and outstanding shares - 13,600 and 38,600 at June 30, 2020 and December 31, 2019, respectively)	2,616	7,292
Derivative liabilities	-	10
Notes payable	16,521	16,521
Non-owned interest in VIE	300	300
Interest payable	451	451
Fair value adjustment	-	2,901
Deferred tax liability	539	322
Total Liabilities	473,197	570,306
 Shareholders' Equity:		
Common shares	4,638	4,618
Additional paid-in capital	189,054	189,002
Accumulated other comprehensive income	1,497	1,323
Retained deficit	(149,754)	(147,471)
Total Shareholders' Equity	45,435	47,472
Non-controlling interest of preferred shares of subsidiaries	6,053	6,053
Total Equity	51,488	53,525
Total Liabilities and Equity	\$ 524,685	\$ 623,831

See Notes to 2019 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, 2020 and 2019
(dollars in thousands, except share and per share amounts)

	<u>Six Months ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Revenues		
Net premiums earned	\$ 4,438	\$ (10,382)
Fee income	5,251	6,052
Change in fair value of credit derivatives		
Realized gains and other settlements	2	72
Unrealized gains	-	189
Net change in fair value of credit derivatives	2	261
Net investment income	592	1,336
Net realized gains on investments	1,500	87
Fair value adjustment	2,077	11,917
Other income	-	31
Total revenues	13,860	9,302
Expenses		
Losses and loss adjustment expenses	5,811	5,957
Acquisition expenses	2,239	(444)
Operating expenses	6,690	6,677
Other expense	284	-
Interest expense	902	902
Total expenses	15,926	13,092
Net (loss) available to common shareholders	\$ (2,066)	\$ (3,790)
Income tax (expense)	(216)	(2)
Net (loss) before dividends	(2,282)	(3,792)
Dividends on preference shares of subsidiary	-	-
Net (loss) available to common shareholders	\$ (2,282)	\$ (3,792)
Net (loss) per common share:		
Basic	\$ (49.30)	\$ (82.18)
Diluted	(48.97)	(82.18)
Weighted-average number of common shares outstanding:		
Basic	46,295	46,142
Diluted	46,605	46,142

See Notes to 2019 Consolidated Financial Statements available on American Overseas Group Ltd. Website at www.aoreltd.com

AMERICAN OVERSEAS GROUP LTD.

NET INCOME AND OPERATING INCOME BY SEGMENT

(dollars in thousands)

June 30, 2020

	Net income available to common shareholders	Net realized loss on sales of investments	Net change in fair value of credit derivatives	Fair value adjustments	Restructuring Charges	Operating income
Property and casualty:						
Net premiums earned	\$ 7,951					\$ 7,951
Losses and loss adjustment expenses	(4,234)					(4,234)
Acquisition expenses	(2,369)					(2,369)
Property/Casualty Underwriting Income	1,348					1,348
Fee income	5,251					5,251
Operating expenses	(5,623)				362	(5,261)
Income tax	(216)				(76)	(292)
Property and casualty	760	-	-	-	286	1,046
Financial guaranty:						
Net premiums earned	(3,513)			3,703		190
Net change in fair value of credit derivatives	2		(2)			-
Losses and loss adjustment expenses	(1,577)			(19,546)		(21,123)
Acquisition expenses	130			(153)		(23)
Operating expenses	(1,100)					(1,100)
Financial guaranty	(6,058)	-	(2)	(15,996)	-	(22,056)
Corporate and Investing						
Net investment income	592					592
Net realized loss on sales of investments	1,500	(21,000)		19,500		-
Fair value adjustment	2,077			(2,077)		-
Operating expenses	33					33
Interest expense	(902)					(902)
Other expense, net of other income	(284)					(284)
Corporate and investing	3,016	(21,000)	-	17,423	-	(561)
Group total	\$ (2,282)	\$ (21,000)	\$ (2)	\$ 1,427	\$ 286	\$ (21,571)

AMERICAN OVERSEAS GROUP LTD.

NET INCOME AND OPERATING INCOME BY SEGMENT

(dollars in thousands)

June 30, 2019

	Net income available to common shareholders	Net realized loss on sales of investments	Net change in fair value of credit derivatives	Fair value adjustments	Restructuring Charges	Operating income
Property and casualty:						
Net premiums earned	\$ 3,881					\$ 3,881
Losses and loss adjustment expenses	(972)					(972)
Acquisition expenses	(2,689)					(2,689)
Property/Casualty Underwriting Income	220					220
Fee income	6,052					6,052
Operating expenses	(4,525)					(4,525)
Income tax	(2)					(2)
Property and casualty	1,745	-	-	-	-	1,745
Financial guaranty:						
Net premiums earned	(14,263)			12,852		(1,411)
Net change in fair value of credit derivatives	261		(189)			72
Losses and loss adjustment expenses	(4,985)			(1,822)		(6,807)
Acquisition expenses	3,133			(2,855)		278
Operating expenses	(1,899)					(1,899)
Financial guaranty	(17,753)	-	(189)	8,175	-	(9,767)
Corporate and Investing						
Net investment income	1,336					1,336
Net realized loss on sales of investments	87	(87)				-
Fair value adjustment	11,917			(11,917)		-
Operating expenses	(253)					(253)
Interest expense	(902)					(902)
Other income, net of other expense	31					31
Corporate and investing	12,216	(87)	-	(11,917)	-	212
Group total	\$ (3,792)	\$ (87)	\$ (189)	\$ (3,741)	\$ -	\$ (7,810)