

American Overseas Group Limited

**Consolidated Financial Statements
For the Year Ended
December 31, 2020**



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
American Overseas Group Limited

We have audited the accompanying consolidated financial statements of American Overseas Group Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income (loss), changes in equity and retained deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Overseas Group Limited and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included within Note 6 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Debitte Ltd.

May 21, 2021

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| Assets | | |
| Fixed-maturity securities held as available for sale, at fair value | \$ 72,641,464 | \$ 129,747,902 |
| Equity investments available for sale, at fair value | 4,143,351 | 1,180,849 |
| Cash and cash equivalents | 24,254,457 | 22,601,650 |
| Restricted cash | 548,063 | 10,557,497 |
| Accrued investment income | 354,676 | 675,050 |
| Premiums receivable | 73,072,658 | 81,000,015 |
| Deferred reinsurance premiums | 101,843,008 | 125,727,914 |
| Reinsurance balances receivable, net | 194,914,323 | 210,404,968 |
| Salvage and subrogation recoverable | - | 385,442 |
| Deferred policy acquisition costs | 3,589,830 | 515,075 |
| Intangible assets | 4,800,000 | 4,800,000 |
| Goodwill | 33,050,000 | 33,050,000 |
| Other assets | 3,766,912 | 3,184,255 |
| Total assets | \$ 516,978,742 | \$ 623,830,617 |
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Losses and loss expense reserve | \$ 192,942,541 | \$ 263,685,760 |
| Deferred commission income | 2,481,862 | - |
| Unearned premiums | 105,677,582 | 128,792,721 |
| Ceded premium payable | 71,989,076 | 89,078,595 |
| Payable to general agents | 4,331,377 | 3,086,509 |
| Funds withheld | 64,980,371 | 52,794,397 |
| Accounts payable and accrued liabilities | 7,921,544 | 5,070,612 |
| Redeemable Series A preference shares | - | 7,291,881 |
| Derivative liabilities | - | 10,181 |
| Fair value adjustment | - | 2,901,044 |
| Notes payable | 16,520,907 | 16,520,907 |
| Non-owned interest in VIE | 300,000 | 300,000 |
| Interest payable | 450,770 | 450,770 |
| Deferred tax liability | - | 322,119 |
| Total liabilities | 467,596,030 | 570,305,496 |
| Shareholders' equity: | | |
| Common shares | 4,697,900 | 4,617,900 |
| Additional paid-in capital | 189,151,024 | 189,002,460 |
| Accumulated other comprehensive income | 1,962,316 | 1,323,333 |
| Retained deficit | (152,481,904) | (147,471,948) |
| Total shareholders' equity | 43,329,336 | 47,471,745 |
| Non-controlling interest in preferred shares in subsidiaries | 6,053,376 | 6,053,376 |
| Total equity | 49,382,712 | 53,525,121 |
| Total liabilities and equity | \$ 516,978,742 | \$ 623,830,617 |

See Accompanying Notes to the Consolidated Financial Statements.

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------|-----------------------|
| Net premiums earned | \$ 12,322,755 | \$ (5,422,601) |
| Fee income | 9,945,770 | 11,591,031 |
| Net investment income | 709,240 | 2,447,131 |
| Net realized gain | 1,579,746 | 1,823,999 |
| Fair value adjustment | (173,075) | 10,585,632 |
| Net change in fair value of credit derivatives | 2,487 | 265,074 |
| Gain on the sale of real estate | 323,145 | - |
| Other income | - | 382,382 |
| Total revenues | <u>24,710,068</u> | <u>21,672,648</u> |
| Net losses and loss adjustment expenses | 10,521,944 | 7,473,530 |
| Acquisition costs | 4,837,480 | 1,627,174 |
| General and administrative expenses | 12,801,602 | 13,605,184 |
| Interest expense | 1,803,080 | 1,803,080 |
| Other expense | 78,038 | - |
| Total expenses | <u>30,042,144</u> | <u>24,508,968</u> |
| Loss before income tax expense | (5,332,076) | (2,836,320) |
| Income tax benefit (expense) | 322,120 | (286,944) |
| Loss before non-controlling interest | <u>\$ (5,009,956)</u> | <u>\$ (3,123,264)</u> |
| Net loss attributable to non controlling interest | | |
| Non-controlling interest - dividends on Class B preference shares of subsidiary | - | (585,253) |
| Net loss attributable to common shareholders | <u>\$ (5,009,956)</u> | <u>\$ (3,708,517)</u> |
| Net loss per common share: | | |
| Basic | \$ (107.76) | \$ (80.34) |
| Diluted | \$ (106.53) | \$ (80.13) |
| Weighted-average number of common shares outstanding: | | |
| Basic | 46,490 | 46,161 |
| Diluted | 47,027 | 46,281 |

See Accompanying Notes to the Consolidated Financial Statements.

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|------------------------------|------------------------------|
| Net loss before non-controlling interest | \$ (5,009,956) | \$ (3,123,264) |
| Other comprehensive income (loss) | | |
| Change in unrealized fair value of investments | 2,218,729 | 2,832,782 |
| Reclassification adjustment for net realized investment gains included in income | <u>(1,579,746)</u> | <u>(1,823,999)</u> |
| Other comprehensive income | <u>638,983</u> | <u>1,008,783</u> |
| Comprehensive income (loss) | <u><u>\$ (4,370,973)</u></u> | <u><u>\$ (2,114,481)</u></u> |

See Accompanying Notes to the Consolidated Financial Statements.

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF EQUITY AND RETAINED DEFICIT
December 31, 2020 and 2019

| | Share capital | Noncontrolling Interest | Additional paid-in-capital | Accumulated other comprehensive income | Retained deficit | Total stockholders' equity |
|--|---------------|-------------------------|----------------------------|--|------------------|----------------------------|
| Balance, December 31, 2018 | 4,612,400 | 6,053,376 | 188,728,707 | 236,858 | (143,690,607) | 55,940,734 |
| Net loss | - | - | - | - | - | - |
| Share based compensation | 5,500 | - | 273,753 | - | (3,123,264) | (3,123,264) |
| Net change in unrealized gains and losses on investments | - | - | - | - | - | 279,253 |
| Commulative equity adjustment for implementation of new lease accounting standard | - | - | - | 1,008,783 | - | 1,008,783 |
| Commulative equity adjustment for implementation of changes in accounting for equity investments | - | - | - | 77,692 | (77,692) | - |
| Dividends paid on preferred shares | - | - | - | - | (585,253) | (585,253) |
| Balance, December 31, 2019 | 4,617,900 | 6,053,376 | 189,002,460 | 1,323,333 | (147,471,948) | 53,525,121 |
| Net loss | - | - | - | - | (5,009,956) | (5,009,956) |
| Share based compensation | 80,000 | - | 148,564 | - | - | 228,564 |
| Net change in unrealized gains and losses on investments | - | - | - | 638,983 | - | 638,983 |
| Balance, December 31, 2020 | \$ 4,697,900 | \$ 6,053,376 | \$ 189,151,024 | \$ 1,962,316 | \$ (152,481,904) | \$ 49,382,712 |

See Accompanying Notes to the Consolidated Financial Statements

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss for the year | \$ (5,009,956) | \$ (3,123,264) |
| Adjustments to reconcile net (loss) to net cash used in operating activities: | | |
| Net realized gains on sale of investments | (1,579,746) | (1,823,999) |
| Net unrealized gain on equity investment | 119,860 | (159,929) |
| Net unrealized gains on credit derivatives | (2,487) | (265,074) |
| Deferred tax expense | (322,120) | 286,944 |
| Interest expense | 1,803,080 | 1,803,080 |
| Share based compensation | 228,564 | 279,253 |
| Amortization of fair value adjustment | 173,074 | (10,585,632) |
| Amortization of bond discount | 182,238 | 315,906 |
| Changes in operating assets and liabilities: | | |
| Accrued investment income | 320,374 | (13,166) |
| Premiums receivable | 7,927,357 | (2,390,098) |
| Deferred reinsurance premiums | 23,884,906 | (125,727,914) |
| Reinsurance balance receivable, net | 15,490,645 | 111,932,836 |
| Salvage and subrogation | 385,442 | (52,731) |
| Deferred acquisition costs, net | (592,893) | (353,685) |
| Other assets | (582,657) | (1,467,706) |
| Changes in derivative liability | (7,694) | 9,189 |
| Unpaid losses and loss adjustment expenses | (70,743,218) | (3,041,860) |
| Unearned premiums | (23,115,139) | 17,980,782 |
| Ceded premium payable | (17,089,519) | (5,251,375) |
| Payable to general agents | 1,244,868 | 1,658,937 |
| Funds withheld | 12,185,973 | (1,645,441) |
| Accounts payable and accrued liabilities | 2,850,933 | 2,546,249 |
| Net cash used in operating activities | <u>(52,248,115)</u> | <u>(19,088,698)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of available for sale securities | (50,129,018) | (93,377,074) |
| Purchase of equity securities | (3,766,556) | - |
| Proceeds from sales of fixed income investments | 99,473,171 | 84,963,723 |
| Proceeds from sales of equities | 1,005,357 | 5,589,298 |
| Proceeds from maturities of fixed income investments | 9,477,614 | 16,198,489 |
| Net cash provided by investing activities | <u>56,060,568</u> | <u>13,374,436</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Interest paid | (1,803,080) | (1,803,080) |
| Payment on preferred shares | (10,366,000) | - |
| Dividends paid on preferred shares | - | (585,253) |
| Net cash used in financing activities | <u>(12,169,080)</u> | <u>(2,388,333)</u> |

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2020 and 2019

| | 2020 | 2019 |
|---|----------------------|----------------------|
| Net (decrease) in cash and cash equivalents | (8,356,627) | (8,102,595) |
| Cash and cash equivalents - Beginning of year | 33,159,147 | 41,261,742 |
| Cash and cash equivalents - End of year | \$ 24,802,520 | \$ 33,159,147 |
| Net taxes paid (refunded) | \$ - | \$ - |
| <i>Reconciliation of cash and restricted cash and equivalents to Balance Sheet</i> | | |
| Cash and cash equivalents, end of year | \$ 24,254,457 | \$ 22,601,650 |
| Restricted cash and cash equivalents, end of year | 548,063 | 10,557,497 |
| Total cash and cash equivalents and restricted cash and equivalents, end of year | \$ 24,802,520 | \$ 33,159,147 |

See Accompanying Notes to the Consolidated Financial Statements.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BACKGROUND

American Overseas Group Limited (“AOG” or the “Company”) was incorporated on January 28, 1998, under the laws of Bermuda. The Company was originally organized to operate a mono-line financial guaranty reinsurance subsidiary which was placed in voluntary run-off in 2009. After substantially reducing its financial guaranty exposure, AOG entered the property and casualty reinsurance business in 2012. On June 26, 2013 the Company’s principal shareholder at that time, Orpheus Group Ltd. (“OGL”), acquired voting control of AOG. On October 28, 2014, AOG acquired OGL for a combination of common stock and senior notes. The Company is now a major writer of non-standard auto insurance through its U.S. subsidiaries. The bulk of its earned premium and fee income are related to its property and casualty book of business. The financial guaranty book of business was eliminated in 2020.

American Overseas Reinsurance Company Limited (“AORE”), a subsidiary of AOG, entered into a Commutation Agreement with Assured Guaranty Municipal Corp (“AGMC”) effective April 1, 2020, to commute the remaining portfolio of financial guaranty reinsurance business it had assumed from AGMC in exchange for a commutation payment. (See Note 7 – Commutations and other settlements for details)

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies adopted by the Company:

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ materially from those estimates. Certain prior year comparatives have been reclassified to conform to the current year presentation. The effect of these reclassifications had no impact on previously reported shareholders' equity or net loss.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and of its subsidiaries, as well as those of Old American County Mutual Fire Insurance Company (“OACM”), a variable interest entity (“VIE”) which the Company is required to consolidate. All significant intercompany balances have been eliminated in consolidation. For further discussion of VIEs, see Note 18.

(c) Cash and cash equivalents

The Company considers all highly liquid investments, including fixed-interest and money market fund deposits, with a maturity of 90 days or less when purchased, as cash equivalents. Cash equivalents are carried at cost which approximates fair value.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Investments

The Company has classified its fixed-maturity and equity investments as available-for-sale. Available-for-sale investments are carried at fair value, with unrealized appreciation or depreciation reported as a separate component of accumulated other comprehensive income. The Company's fair values of fixed-maturity investments are based on prices obtained from nationally recognized independent pricing services and represent quoted prices in active markets when available. Equity securities include investments in shares of publicly traded companies and offshore mutual funds. All investment transactions are recorded on a trade date basis. Realized gains and losses on sales of fixed-maturity investments are determined on the basis of amortized cost. Gains and losses on sale of investments are included in "net realized gains on sale of investments" when realized. The cost of securities sold is determined using the specific identification method. The Company's investment guidelines require the orderly sale of securities that do not meet investment guidelines due to a downgrade by rating agencies or other circumstances, unless otherwise authorized by management to hold.

Other-than-temporary impairments on investments

The Company reviews its investment portfolio no less than quarterly in order to determine whether an other-than-temporary impairment ("OTTI") of its fixed-maturity and equity investments classified as available-for-sale exists. An impairment is considered to be other-than-temporary if the Company (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the Company does not intend to sell). A "credit loss" is recognized when the present value of cash flows expected to be collected from the fixed-maturity investment is less than the amortized cost basis of the security. If there is an intent to sell the impaired security or it is more likely than not that the Company will be required to sell the security before recovering its cost, then the entire difference between amortized cost and the security's fair value is recognized as an OTTI charge in earnings in the period. If there is no intent to sell the impaired security and it is not more likely than not that the Company will be required to sell the security before recouping its cost but there is a credit loss, then the credit loss portion of the unrealized loss is recognized in earnings with the remainder recognized in other comprehensive income.

Factors considered when assessing impairment include: (i) securities whose market values have declined by 20% or more below amortized cost for a continuous period of at least six months; (ii) credit downgrades by rating agencies; (iii) the financial condition of the issuer; (iv) whether scheduled interest payments are past due; and (v) whether the Company has an intent to sell the security.

(e) Deferred reinsurance premiums

In prior years, the deferred portion of reinsurance premiums were included in reinsurance balances receivable. The Company is now showing on a separate financial statement line to properly match the unearned premium.

(f) Revenue recognition

The Company recognizes financial guaranty reinsurance contract revenue over the period of the contract in proportion to the amount of insurance protection provided. The Company recognizes a liability for unearned premium revenue at the inception of a financial guaranty insurance contract equal to the present value of the premiums due or expected to be collected over the period of the contract. The Company earns property casualty insurance and reinsurance premium revenue over the terms of the related policies. Unearned premiums represent the unexpired portion of premiums written. In addition, the Company earns fee income for providing insurance capacity for its nonstandard automobile liability and physical damage insurance products produced by managing general agents or other producers and ceded to reinsurers. Fee income is the excess of the ceding commission received from the reinsurers over the commission expense paid to the managing general agents or other producers.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Deferred policy acquisition costs

Deferred policy acquisition costs comprise those expenses that vary with and are primarily related to the production of business, including ceding commissions paid.

When assessing the recoverability of deferred policy acquisition costs, the Company considers the future earnings of premiums and anticipated investment income and compares this to the sum of unamortized policy acquisition costs, expected loss and loss adjustment expenses and expected maintenance costs. This comparison is completed by underwriting year and risk type. If a deficiency were calculated, the unamortized acquisition costs would be reduced by a charge to expense. Any deficiency driven by the maintenance costs that is greater than the balance of the deferred acquisition costs for the underwriting year and risk type is recorded as a premium deficiency.

(h) Losses and loss adjustment expenses

For its property/casualty insurance and reinsurance, unpaid losses and loss adjustment expenses include an amount determined from individual case estimates (“case basis loss reserves”) and an amount for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and adjustments are reflected in the period determined.

(i) Fair value measurements

ASC 820 provides guidance for fair value measurement of assets and liabilities and associated disclosures about fair value measurement. Under this standard, the definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). ASC 820 clarifies that fair value is a market-based measurement, not an entity-specific measurement. ASC 820 establishes a fair value hierarchy of inputs in measuring fair value, with the highest level being observable inputs and the lowest being unobservable data as follows:

- Level 1 inputs – valuations based on quoted prices in active markets for identical assets or liabilities. Valuations in this level do not entail a significant degree of judgment.
- Level 2 inputs – valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and model derived valuations where all significant inputs are observable in active markets.
- Level 3 inputs – valuations based on significant inputs that are unobservable.

Disclosures relating to fair value measurements are included in Note 5 – Fair Value of Financial Instruments.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(j) Goodwill and intangible assets

The Company tests for impairment of goodwill and indefinite-lived intangible assets on an annual basis, or more frequently if events or changes in circumstances indicate that impairment exists.

The Company amortizes finite-lived intangible assets over the respective useful lives of the assets. If events or changes in circumstances indicate that impairment of these assets exists, the Company will test for impairment. If, as a result of the evaluation, the Company determines that the value of the goodwill or intangible assets is impaired, then the value of the assets will be written-down through net income in the period in which the determination of the impairment is made.

(k) Leases

At lease inception, the Company determines whether an arrangement is or contains a lease. Operating leases are included in operating lease right-of-use (“ROU”) assets, current operating lease liabilities, and noncurrent operating lease liabilities in the consolidated financial statements. ROU assets represent the Company’s right to use leased assets over the term of the lease. Lease liabilities represent the Company’s contractual obligation to make lease payments over the lease term.

For operating leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured as the present value of the lease payments over the lease term. The Company uses the rate implicit in the lease if it determinable. When the rate implicit in the lease is not determinable, the Company uses its incremental borrowing rate at the commencement date of the lease to determine the present value of the lease payments. Operating ROU assets are calculated as the present value of the remaining lease payments plus unamortized initial direct costs plus any prepayments less any unamortized lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to the Company if the option were not exercised. Lease expense is recognized on a straight-line basis over the lease term. The Company has elected not to recognize a ROU asset and obligation for leases with an initial term of twelve months or less. The expense associated with short term leases is included in lease expense in the income statement.

To the extent a lease arrangement includes both lease and fixed non-lease components, the Company has elected to account for the components as a single lease component. To the extent the non-lease component is not fixed in nature, the non-lease components are expensed separately.

(l) Taxation

Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the difference is reversed. A valuation allowance is recorded against gross deferred tax assets if it is more likely than not that all or some portion of the benefits related to the deferred tax assets will not be realized.

(m) Share-based compensation

The Company measures and records compensation costs for all share-based payment awards based on grant-date fair value over the requisite service period. This includes consideration of expected forfeitures in determining share based-based employee compensation expenses.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(n) Treasury shares

Common shares of AOG held by the Company and its subsidiaries are accounted for similar to share cancellations with the excess of the par value reflected in additional paid in capital.

(o) Recently adopted accounting pronouncements

Leases

On January 1, 2019, the Company adopted the requirements of Accounting Standards Update (“ASU”) 2016-02 *Leases* (Topic 842). The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For lessees, the key difference of the new standard from the previous guidance (Topic 840) is the recognition of a right-of use (ROU) asset and lease liabilities for leases classified as operating leases. The standard requires disclosures to meet the objection of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

As part of the transition to the new standard, the Company was required to measure and recognize leases that existed at January 1, 2019 using a modified retrospective approach. For leases existing at the effective date, the Company elected the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, did not reassess lease classification, and did not reassess what qualifies as an initial direct cost. Additionally, the Company elected, as a practical expedient, to use hindsight for purposes of determining lease term.

The addition of Topic 842 resulted in the recognition of an operating ROU asset and operating lease liability of \$2,094,935 and \$2,377,267, respectively as of January 1, 2019. A cumulative effect adjustment of \$4,868 was recorded at the initial application date of January 1, 2019. There are no finance leases.

Equity Investments

Effective January 1, 2019, the Company adopted ASU No. 2016-01, Recognition and Measurement of Financial Assets and Liabilities. ASU No. 2016-01 requires entities to measure equity investments (except those accounted for under the equity method, those that result in consolidation of the investee and certain other investments) at fair value and recognize any changes in fair value through net income. As a result of adopting the standard, unrealized investment losses on equity of \$77,692 were reclassified from accumulated other comprehensive income to retained deficit

(p) Accounting pronouncements not yet adopted

Credit losses on financial instruments

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposures (e.g., reinsurance recoverables, premium receivables, held-to-maturity debt securities, and loan commitments). That model requires an entity to estimate lifetime credit losses related to certain financial assets, based on relevant historical information, adjusted for current conditions and reasonable and supportable forecasts that could affect the collectability of the reported amount. The ASU also makes targeted amendments to the current impairment model for available-for-sale debt securities, which includes requiring the recognition of an allowance rather than a direct write-down of the investment. The allowance may be reversed in the event that the credit of an issuer improves. In addition, the ASU eliminates the existing guidance for purchased credit impaired assets and introduces a new model for 135 purchased financial assets with credit deterioration, such as the Company's loss

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(p) Accounting pronouncements not yet adopted (cont'd)

Credit losses on financial instruments (cont'd)

mitigation securities. That new model would require the recognition of an initial allowance for credit losses, which is added to the purchase price.

The ASU was originally effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020; however, ASU 2019-10, issued on November 15, 2019, amended the effective date for non-SEC filers to now be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. For reinsurance recoverables, premiums receivable and debt instruments such as loans and held to maturity securities, entities will be required to record a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is adopted. The changes to the impairment model for available-for-sale securities and changes to purchased financial assets with credit deterioration are to be applied prospectively. Early adoption of the amendments is permitted. The Company is evaluating the effect that this ASU will have on its financial statements.

Income Taxes

On Dec. 18, 2019, the FASB released Accounting Standards Update (ASU) 2019-12, which affects general principles within Topic 740, Income Taxes. The amendments of ASU 2019-12 are meant to simplify and reduce the cost of accounting for income taxes. The FASB has stated that the ASU was issued as part of its Simplification Initiative, which is meant to reduce complexity in accounting standards by improving certain areas of generally accepted accounting principles (GAAP) without compromising information provided to users of financial statements. For public business entities, the amendments in ASU 2019-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption of the amendments is permitted.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

3. PLEDGED ASSETS

As of December 31, 2020 and 2019, there were investments of \$2.2 million and \$2.0 million, respectively, on deposit with state insurance department regulators related to a U.S. subsidiary.

As of December 31, 2020, and 2019, AORE had restricted cash of \$334 dollars and \$7.0 million, respectively, and investments at fair value of \$3.1 million and \$45.7 million, respectively, in trust accounts. These accounts include funds held in trust for the benefit of the holders of its Class B Preference Shares, as well as funds held in trust for the benefit of its ceding companies. Pursuant to the terms of the reinsurance agreements with ceding companies regulated in the United States, AORE is required to secure its obligations to these ceding companies in accordance with applicable state statutes governing credit for reinsurance, and may not withdraw funds from these trust accounts without the ceding companies' express permission. The trust accounts are required to hold cash and investments equivalent to unearned premiums, case-basis and incurred but not reported loss reserves, credit impairments (a non GAAP measure representing losses expected to be paid on insured credit derivative policies), and a contingency reserve calculated by the ceding companies. Management reviews these balances for reasonableness quarterly.

On February 19, 2014 AOG established an irrevocable trust (the "Series A Security Trust") for the benefit of the holders of the Series A Preference Shares. Butterfield Trust Company has been appointed as its trustee. The Company has been authorized to redeem Series A Shares at any time for the amount that is not in excess of the Holder's pro-rata share of the assets in the Series A Security Trust. In 2019, the invested assets held in the Series A Security Trust were sold (see Note 4 – Investments for details) and the proceeds of \$2.9 million were held in restricted cash. In 2020, the remaining shares of the Series A Preference Shares were repurchased with proceeds from the the 2019 sale of the Series A Trust (see Note 12 – Redeemable Series A Preference Shares) therefore the value of the Series A Security Trust is nil at December 31, 2020.

On July 21, 2014 AORE established an irrevocable trust (the "Class B Security Trust") for the benefit of the holders of its Class B Preference Shares. Butterfield Trust Company was appointed as its trustee. AORE has been authorized to redeem Class B Shares at any time for the amount that is not in excess of the Holder's pro-rata share of the assets in the Class B Security Trust. In 2019, the invested assets held in the Class B Security Trust were sold (see Note 4 – Investments for details) and the proceeds of \$2.8 million were held in restricted cash. In 2020, the entire proceeds of \$2.8 million from the 2019 sale of investments were reinvested and held in the trust account. The market value of the Class B Security Trust is \$3.1 million as of December 31, 2020.

Opheus Re Ltd. ("ORE") held a Section 114 Trust in favor of OACM to support obligations from the reinsurance business assumed. As at December 31, 2020 and 2019 the assets value was \$2.2 million and \$2.1 million, respectively.

ORE held a Section 114 Trust in favor of OAIC to support obligations from the reinsurance business assumed. As at December 31, 2020 and 2019 the assets value was \$1.1 million and \$0.8 million, respectively.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. INVESTMENTS

The amortized cost, gross unrealized gains, gross unrealized losses, OTTI and estimated fair value recorded in accumulated other comprehensive income of the Company's available for sale investments at December 31, 2020 and 2019, were as follows:

| | Included in Accumulated Other Comprehensive Income ("AOCI") | | | | |
|--|--|---------------------------------------|---|---|---------------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | | Estimated Fair Value |
| | | | Related to Changes in Estimated Fair Value | OTTI Included in Other Comprehensive Income ⁽¹⁾ | |
| 2020 | | | | | |
| US Treasuries and government agencies ⁽²⁾ | \$ 25,043,925 | \$ 314,675 | \$ - | \$ - | \$ 25,358,600 |
| Corporate debt securities | 12,211,541 | 657,223 | (2,284) | - | 12,866,480 |
| Municipal securities | 25,427,549 | 447,903 | (777) | - | 25,874,675 |
| Asset-backed securities | 8,322,174 | 219,535 | - | - | 8,541,709 |
| Total available for sale fixed-maturity investments | <u>\$ 71,005,189</u> | <u>\$ 1,639,336</u> | <u>\$ (3,061)</u> | <u>\$ -</u> | <u>\$ 72,641,464</u> |
| Equity securities available for sale | 3,854,934 | 328,724 | (40,307) | - | 4,143,351 |
| Total investment portfolio | <u><u>\$ 74,860,123</u></u> | <u><u>\$ 1,968,060</u></u> | <u><u>\$ (43,368)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 76,784,815</u></u> |

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. INVESTMENTS (Cont'd)

| | Included in Accumulated Other Comprehensive Income ("AOCI") | | | | |
|---|--|---------------------------------------|---|--------------------|---------------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | | Estimated Fair Value |
| Related to Changes in Estimated Fair Value | | | OTTI Included in Other Comprehensive Income ⁽¹⁾ | | |
| 2019 | | | | | |
| US Treasuries and government agencies ⁽²⁾ | \$ 58,131,267 | \$ 524,995 | \$ (37,391) | \$ - | \$ 58,618,871 |
| Corporate debt securities | 28,494,683 | 484,905 | (1,818) | - | 28,977,770 |
| Municipal securities | 10,341,936 | 52,732 | (9,463) | - | 10,385,205 |
| Mortgage-backed securities | 10,095,501 | 140,558 | (42,485) | - | 10,193,574 |
| Asset-backed securities | 21,361,182 | 232,433 | (21,133) | - | 21,572,482 |
| Total available for sale fixed-maturity investments | <u>\$ 128,424,569</u> | <u>\$ 1,435,623</u> | <u>\$ (112,290)</u> | <u>\$ -</u> | <u>\$ 129,747,902</u> |
| Equity securities available for sale | 1,098,612 | 82,237 | - | - | 1,180,849 |
| Total investment portfolio | <u><u>\$ 129,523,181</u></u> | <u><u>\$ 1,517,860</u></u> | <u><u>\$ (112,290)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 130,928,751</u></u> |

⁽¹⁾ Represents the amount of OTTI losses in accumulated other comprehensive income ("AOCI"), since adoption of the accounting guidance for OTTI.

⁽²⁾ Including US Government temporary liquidity guarantee program securities.

The Company did not have an aggregate investment in a single entity in excess of 10% of total investments at December 31, 2020 and 2019. The Company had no material investments in securities guaranteed by third parties and had no direct investments in financial guarantors as at December 31, 2020 and 2019.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. INVESTMENTS (Cont'd)

The amortized cost and estimated fair value of fixed-maturity securities classified as available-for-sale, as of December 31, 2020 and 2019, by contractual maturity, are shown below. Expected maturities differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

| | December 31, 2020 | | December 31, 2019 | |
|-----------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Less than one year | \$ 12,080,297 | \$ 12,154,325 | \$ 17,422,717 | \$ 17,515,319 |
| One through five years | 35,328,693 | 36,429,375 | 63,721,497 | 64,547,768 |
| Greater than five years | 15,274,025 | 15,516,055 | 15,823,672 | 15,918,759 |
| Mortgage-backed securities: | | | | |
| RMBS | - | - | 10,095,501 | 10,193,574 |
| Asset-backed securities | 8,322,174 | 8,541,709 | 21,361,182 | 21,572,482 |
| Total | \$ 71,005,189 | \$ 72,641,464 | \$ 128,424,569 | \$ 129,747,902 |

The investments that have unrealized loss positions as of December 31, 2020 and 2019, aggregated by investment category and the length of time they have been in a continuous unrealized loss position, are as follows:

| | <u>Less than 12 Months</u> | | <u>12 Months or More</u> | | <u>Total</u> | |
|---------------------------------------|----------------------------|----------------------------|--------------------------|----------------------------|---------------------|----------------------------|
| | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Fair Value</u> | <u>Unrealized Loss</u> |
| 2020: | | | | | | |
| Fixed-maturity investments: | | | | | | |
| Corporate debt securities | \$ 311,850 | \$ (2,284) | \$ - | \$ - | \$ 311,850 | \$ (2,284) |
| Municipal securities | 2,739,970 | (777) | - | - | 2,739,970 | (777) |
| Total temporarily impaired securities | <u>\$ 3,051,820</u> | <u>\$ (3,061)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,051,820</u> | <u>\$ (3,061)</u> |

| | <u>Less than 12 Months</u> | | <u>12 Months or More</u> | | <u>Total</u> | |
|---------------------------------------|----------------------------|----------------------------|--------------------------|----------------------------|----------------------|----------------------------|
| | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Fair Value</u> | <u>Unrealized Loss</u> | <u>Fair Value</u> | <u>Unrealized Loss</u> |
| 2019: | | | | | | |
| Fixed-maturity investments: | | | | | | |
| US Treasuries and government agencies | \$ 7,627,438 | \$ (37,391) | \$ - | \$ - | \$ 7,627,438 | \$ (37,391) |
| Corporate debt securities | 994,741 | (1,818) | - | - | 994,741 | (1,818) |
| Municipal securities | 1,400,458 | (9,463) | - | - | 1,400,458 | (9,463) |
| Mortgage-backed securities | - | - | 5,824,682 | (42,485) | 5,824,682 | (42,485) |
| Asset-backed securities | 496,013 | (3,922) | 6,135,587 | (17,211) | 6,631,600 | (21,133) |
| Total temporarily impaired securities | <u>\$ 10,518,650</u> | <u>\$ (52,594)</u> | <u>\$ 11,960,269</u> | <u>\$ (59,696)</u> | <u>\$ 22,478,919</u> | <u>\$ (112,290)</u> |

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. INVESTMENTS (Cont'd)

The following table sets forth the investment ratings of the Company's available-for-sale corporate fixed income securities as at December 31, 2020 and 2019. Ratings are assigned by Standard & Poor's or AM Best in instances where Standard & Poor's do not issue a rating.

| 2020 | <u>Amortized Cost</u> | <u>%</u> |
|---------------|-----------------------|-------------|
| AAA | \$ 14,916,790 | 21.0% |
| AA | 39,515,866 | 55.7% |
| A | 13,089,589 | 18.4% |
| BBB and below | <u>3,482,944</u> | <u>4.9%</u> |
| | <u>\$ 71,005,189</u> | <u>100%</u> |
| | | |
| 2019 | <u>Amortized Cost</u> | <u>%</u> |
| AAA | \$ 29,351,756 | 22.8% |
| AA | 70,737,613 | 55.1% |
| A | 27,585,392 | 21.5% |
| BBB and below | <u>749,808</u> | <u>0.6%</u> |
| | <u>\$ 128,424,569</u> | <u>100%</u> |

As of December 31, 2020, 4 out of 157 fixed maturity securities were in unrealized loss positions compared to 28 out of 200 as of December 31, 2019. As at December 31, 2020, the Company's unrealized loss position for fixed maturity securities was \$3,061 dollars compared to \$0.1 million at December 31, 2019. Management does not believe these investments to be other than temporarily impaired, and has no intention to sell the securities. Unrealized gains and losses relating to fixed maturity investments, excluding any credit loss portion, are currently recorded in accumulated other comprehensive income in shareholders' equity as the Company generally holds these investments to maturity. The unrealized gains and losses are expected to decrease as the investment approaches maturity and the Company expects to realize a value substantially equal to amortized cost. None of the securities have been in an unrealized loss position for 12 months or more as of December 31, 2020 and there were ten securities in an unrealized loss position \$0.1 million for 12 months or more as of December 31, 2019.

During the years ended December 31, 2020 and 2019, the Company recognized losses on other than temporary impairments in the amount of nil, respectively.

Proceeds from maturities and sales of investments in fixed-maturity securities available for sale during 2020 and 2019 were \$109.0 million and \$101.2 million, respectively. Gross gains of \$1.8 million and \$0.3 million in 2020 and 2019, respectively, and gross losses of \$0.2 million and \$24,541 in 2020 and 2019, respectively, were realized on those sales. Proceeds from the sale of equities were \$1.0 million and \$5.6 million in 2020 and 2019, respectively. Gross losses from the 2020 sales were \$4,877 dollars and gross gains from the 2019 sales were \$1.6 million.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. INVESTMENTS (Cont'd)

Major categories of net investment income are summarized as follows for the years ended December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|-------------------|---------------------|
| Interest from fixed-maturity securities | \$ 1,843,719 | \$ 3,621,910 |
| Interest from cash equivalents | 28,759 | 100,723 |
| Dividend Income | 99,884 | 99,884 |
| Amortization | 4,510 | 13,168 |
| Investment expense | (1,267,632) | (1,335,290) |
| Interest on funds held | - | (53,264) |
| | <u> </u> | <u> </u> |
| Net Investment income | <u>\$ 709,240</u> | <u>\$ 2,447,131</u> |

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements

The Company follows the guidance of ASC 820 for fair value measurement of financial instruments. ASC 820 establishes a hierarchy of inputs in measuring fair value, with the highest level being observable inputs and the lowest being unobservable data, with the standard requiring that the use of observable inputs is maximized (see Note 2(i) - Significant Accounting Policies – Fair Value Measurements for a description of each of the three levels).

The following table presents the fair value measurement levels for assets and liabilities, which the Company has recorded at fair value as of December 31, 2020 and 2019. As required by ASC 820, items are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

| Fair Value Measurements at Reporting Date Using | | | | |
|---|--|---|---|--|
| | Balance as of December 31, <u>2020</u> | Quoted Prices in Active Markets for Identical <u>Assets (Level 1)</u> | Significant Other Observable <u>Inputs (Level 2)</u> | Significant Unobservable <u>Inputs (Level 3)</u> |
| Financial Assets: | | | | |
| U.S. treasuries and government agencies | \$ 25,358,600 | \$ 25,358,600 | \$ - | \$ - |
| Corporate debt securities | 12,866,480 | - | 12,866,480 | - |
| Municipal securities | 25,874,675 | - | 25,874,675 | - |
| Asset-back securities | 8,541,709 | - | 8,541,709 | - |
| Investments available for sale fixed maturity investments | 72,641,464 | 25,358,600 | 47,282,864 | - |
| Cash and Cash Equivalents | 24,254,457 | 24,254,457 | - | - |
| Restricted Cash | 548,063 | 548,063 | - | - |

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|--|
| | Balance as of December 31, <u>2019</u> | Quoted Prices in Active Markets for Identical <u>Assets (Level 1)</u> | Significant Other Observable <u>Inputs (Level 2)</u> | Significant Unobservable <u>Inputs (Level 3)</u> |
| Financial Assets: | | | | |
| U.S. treasuries and government agencies | \$ 58,618,871 | \$ 41,954,431 | \$ 16,664,440 | \$ - |
| Corporate debt securities | 28,977,770 | - | 28,977,770 | - |
| Municipal securities | 10,385,205 | - | 10,385,205 | - |
| Mortgage-backed securities | 10,193,574 | - | 10,193,574 | - |
| Asset-back securities | 21,572,482 | - | 21,572,482 | - |
| Investments available for sale fixed maturity investments | 129,747,902 | 41,954,431 | 87,793,471 | - |
| Equity investments available for sale | - | - | - | - |
| Cash and Cash Equivalents | 22,601,650 | 22,601,650 | - | - |
| Restricted Cash | 10,557,497 | 10,557,497 | - | - |
| Financial Liabilities: | | | | |
| Derivative Liabilities ⁽¹⁾ | \$ 10,181 | \$ - | \$ - | \$ 10,181 |

Fixed-maturity investments

The Company's fair values of fixed-maturity and short-term investments are based on prices obtained from nationally recognized independent pricing services. Where available, the prices are obtained from market quotations in active markets. Where there is no quoted price for an identical security, then the pricing service may use matrix pricing or model processes, such as the option adjusted spread model, to estimate the fair value of a security. The matrix pricing or model processes consist primarily of observable inputs, which may include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. The Company receives at least one fair value price for each of its investment securities and has not adjusted any of the prices received from the pricing services. At December 31, 2020 and 2019, all the Company's securities were valued using the independent pricing services.

As management is ultimately responsible for determining the fair value measurements for all securities, the Company assesses the reasonableness of the fair values received by comparing them to other pricing information readily available and management's knowledge of the current markets. The Company also assesses the pricing methodologies and related inputs used by the pricing services to estimate fair value. Any prices that, in management's opinion, may not be representative of fair value are challenged with the pricing service. Based on the information obtained from the above reviews, the Company evaluated the fixed-maturity securities in the investment portfolio to determine the appropriate fair value hierarchy level in accordance with ASC 820. Based on the Company's evaluation, each security was classified as Level 1, 2, or 3. Prices with observable market inputs were classified as Level 2, prices on money market funds and US treasuries were classified as Level 1. There were no market inputs classified as Level 3 as of December 31, 2020 and 2019. The Company holds an investment in a capital trust, classified as a corporate debt

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

security available for sale, which was valued using an analysis to comparable securities, incorporating a spread to the yields on the comparable securities to derive the fair value. There were no liabilities measured at fair value on a recurring basis using unobservable measurements other than the Company's credit derivatives.

Equity investments

The Company's equity investments were comprised of funds invested in a range of diversified strategies. In accordance with U.S. GAAP, the fair values of the funds are based on the unadjusted net asset value of the funds and as such, the Company has adopted NAV as a practical expedient and this is not presented in the levelling table. The Company validates these prices through agreeing net asset values to audited financial statements where available, in conjunction with regular discussion and analysis of the investment portfolio's structure.

Other fair value disclosures

Management has estimated the fair value of certain financial instruments based upon market information using appropriate valuation methodologies. Fair value estimates are not necessarily indicative of the amount the Company could realize in a current market exchange.

The Company considers carrying amounts of cash and cash equivalents, interest, other assets, accounts payable and accrued liabilities to be reasonable estimates of their fair values.

In 2020, the Company's remaining \$38.6 million shares of redeemable Series A Preference were repurchased. As of December 31, 2019, the fair value of the Company's \$38.6 million, respectively redeemable Series A Preference Shares was approximately \$7.3 million. These fair value estimates are based on the present value of expected cashflows, together with the Company's best estimate of fair value of this instrument. The fair value measurement was classified as Level 3 in the fair value hierarchy.

Carrying value of all financial assets and liabilities is equivalent to fair value.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

| | <u>Derivatives</u> |
|--|----------------------------|
| | Credit <u>Contracts</u> |
| Opening Balance | \$ 10,181 |
| Transfers into Level 3 | - |
| Transfers into Level 3 | - |
| Total gains or losses for the period | |
| Included in earnings or changes in net assets | (2,487) |
| Included in other comprehensive income | - |
| Purchases, issues, sales and settlements | |
| Purchases | - |
| Issues | - |
| Sales | - |
| Settlements | (7,694) |
| Closing balance | <u>\$ -</u> |

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

6. LOSSES AND LOSS EXPENSE RESERVE

The Company's loss and loss expense reserve as of December 31, 2020, represented case basis loss reserves and incurred but not reported reserves, or claim liability which includes a fair value adjustment of the financial guaranty reserves. Refer to Note 2 - Significant Accounting Policies for a description of the Company's accounting policy for insurance losses.

A summary of the movement in the provision for losses and LAE for the years ended December 31, 2020 and 2019 is presented in the following table:

| | 2020 | 2019 |
|---|------------------------------|------------------------------|
| Losses and loss expense reserve | | |
| Balance - Beginning of year | \$ 263,685,760 | \$ 266,727,620 |
| Less: reinsurance recoverable | (194,630,544) | (192,901,183) |
| Net balance - Beginning of year | <u>69,055,216</u> | <u>73,826,437</u> |
| Reserves transferred in through loss portfolio transfer | - | - |
| Incurred related to: | | |
| Current year | 8,962,705 | 4,070,143 |
| Prior years | 1,560,160 | 3,388,029 |
| Premium deficiency reserve | (921) | 15,358 |
| Total incurred | <u>10,521,944</u> | <u>7,473,530</u> |
| Net losses paid related to: | | |
| Current year | (4,930,641) | (2,035,099) |
| Prior years | (69,498,820) | (10,209,652) |
| Total Paid | <u>(74,429,461)</u> | <u>(12,244,751)</u> |
| Net balance - End of year | 5,147,699 | 69,055,216 |
| Add: reinsurance recoverable | 187,794,842 | 194,630,544 |
| Balance - End of year | <u><u>\$ 192,942,541</u></u> | <u><u>\$ 263,685,760</u></u> |

For the year ended December 31, 2020, the Company incurred loss and LAE of \$10.5 million. Incurred losses related to the Company's short-tailed property casualty business were \$8.9 million, driven by \$9.0 million of incurred loss on the current accident year. The financial guaranty reinsurance business generated net incurred losses of \$1.6 million in 2020 including fair value adjustments.

For the year ended December 31, 2019, the Company incurred loss and LAE of \$7.5 million. Incurred losses related to the Company's short-tailed property casualty business were \$3.7 million, driven by \$4.1 million of incurred loss on the current accident year. The financial guaranty reinsurance business generated net incurred losses of \$3.8 million in 2019 including fair value adjustments.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

6. LOSSES AND LOSS EXPENSE RESERVE (cont'd)

Property and casualty

The following presents information about incurred and paid claims development for the short term duration contracts as of December 31, 2020, net of reinsurance. The information about incurred and paid claims development for the 2013 to 2020 years, and the average annual percentage payout of incurred claims by age as of December 31, 2020, is presented as required supplementary information. The below tables begin at June 26, 2013. This was the date AOG became part of OGL, whose U.S. subsidiaries write short duration property and casualty business. Claims count information is not reflected in the below tables. Due to the role of the U.S subsidiaries in the non standard auto and the reinsurance business this information is not available.

| Incurred loss and allocated loss adjustment expenses, net of reinsurance For the Years Ended December 31, | | | | | | | | | | Total of incurred-but- not-reported liabilities plus expected development on reported claims |
|---|----------------------------|----------------------------|----------------------------|-------------|-------------|-------------|-------------|-------------|-----------|--|
| (dollars in thousand Accident Year | (unaudited) <u>2013</u> | (unaudited) <u>2014</u> | (unaudited) <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | | |
| 2013 | \$ 34,799 | \$ 38,858 | \$ 38,245 | \$ 38,013 | \$ 38,057 | \$ 37,913 | \$ 37,879 | \$ 37,880 | \$ 37,880 | 57 |
| 2014 | - | 34,792 | 35,215 | 34,577 | 34,694 | 34,530 | 34,492 | 34,542 | 34,542 | 71 |
| 2015 | - | - | 5,182 | 5,076 | 5,332 | 5,173 | 5,206 | 5,200 | 5,200 | 8 |
| 2016 | - | - | - | 3,072 | 3,388 | 3,223 | 3,137 | 3,107 | 3,107 | 9 |
| 2017 | - | - | - | - | 3,125 | 2,852 | 2,699 | 2,631 | 2,631 | 29 |
| 2018 | - | - | - | - | - | 1,966 | 1,858 | 1,804 | 1,804 | 41 |
| 2019 | - | - | - | - | - | - | 4,070 | 4,164 | 4,164 | 306 |
| | | | | | | | | 8,963 | | 2,557 |
| | | | | | \$ 84,596 | \$ 85,657 | \$ 89,341 | \$ 98,291 | | |

| Cumulative paid claims and allocated loss adjustment expenses, net of reinsurance For the Years Ended December 31, | | | | | | | | | |
|--|----------------------------|----------------------------|----------------------------|-------------|-------------|-------------|-------------|-------------|-----------|
| (dollars in thousand Accident Year | (unaudited) <u>2013</u> | (unaudited) <u>2014</u> | (unaudited) <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | |
| 2013 | \$ 15,872 | \$ 30,676 | \$ 35,199 | \$ 37,208 | \$ 37,919 | \$ 38,137 | \$ 38,196 | \$ 38,270 | \$ 38,270 |
| 2014 | - | 21,080 | 28,728 | 32,052 | 33,420 | 33,927 | 34,007 | 34,054 | 34,054 |
| 2015 | - | - | 3,392 | 4,708 | 5,332 | 5,384 | 5,467 | 5,467 | 5,467 |
| 2016 | - | - | - | 1,980 | 2,794 | 2,952 | 2,978 | 2,993 | 2,993 |
| 2017 | - | - | - | - | 1,810 | 2,571 | 2,694 | 2,714 | 2,714 |
| 2018 | - | - | - | - | - | 1,071 | 1,409 | 1,444 | 1,444 |
| 2019 | - | - | - | - | - | - | 2,034 | 3,300 | 3,300 |
| | | | | | | | | 4,932 | |
| | | | | | \$ 81,275 | \$ 84,042 | \$ 86,785 | \$ 93,174 | |

| | | | | |
|--|----------|----------|----------|----------|
| All outstanding liabilities before 2013, net of reinsurance | 72 | 21 | 14 | - |
| Liabilities for claims and claims adjustment expense, net of reinsurance | \$ 3,393 | \$ 1,636 | \$ 2,570 | \$ 5,117 |

Average annual percentage payout of incurred claims by age, net of reinsurance

| Years | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> | <u>Year 5</u> |
|-------|---------------|---------------|---------------|---------------|---------------|
| | 58% | 27% | 8% | 2% | 1% |

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

6. LOSSES AND LOSS EXPENSE RESERVE (cont'd)

**Reconciliation of the disclosure of incurred and paid claims development to the liability
for unpaid claims and claims adjustment expenses**

| (dollars in thousands) | <u>2020</u> |
|--|--------------------|
| <u>Net Outstanding Liabilities</u> | |
| Liabilities for unpaid claims and claim adjustment expenses, net of reins ¹ | \$ 5,149 |
| Total reinsurance recoverable on unpaid claims | 187,794 |
| Insurance lines other than short-duration | - |
| | <u>192,943</u> |
| Total gross liability for unpaid claims and claims adjustment expense | <u>\$ 192,943</u> |

7. COMMUTATIONS AND OTHER SETTLEMENTS

Effective June 1, 2019, the Company entered into a Commutation, Reassumption and Release Agreement with Assured Guaranty Municipal Corp. (“AGM”). This agreement provided, among other things, for the Company to pay a \$12,823,945 net commutation payment to terminate the reinsurance with respect to a certain policy previously assumed, with par in-force of \$1.0 billion (the “Released Risks”). In return, each party was released from all liabilities and obligations with respect to the Released Risks. The effect of this agreement on the Company’s results of operations was an overall loss to net income at the time of termination of \$2.8 million.

AORE entered into a Commutation Agreement, effective April 1, 2020, to commute the remaining portfolio of financial guaranty reinsurance business it had assumed from Assured Guaranty Municipal Corp (“AGMC”). The aggregate outstanding par value of the reinsurance portfolio being commuted was \$345.0 million as of April 1, 2020, therefore eliminating the financial guaranty reinsurance business on AORE. As of December 31, 2019 and 2018, the aggregate outstanding par value of the reinsurance portfolio was \$362.0 million and \$1,474.0 million, respectively.

8. FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS REINSURANCE

The following tables present a roll forward of AORE’s premiums receivable on installment policies for the years ended December 31, 2020 and 2019:

| (dollars in thousands) | Years ended December 31, | |
|--|---------------------------------|--------------------|
| | <u>2020</u> | <u>2019</u> |
| Premiums receivable beginning balance | \$ 2,159 | \$ 4,636 |
| Change in premiums receivable discount | (4) | (2,144) |
| Foreign exchange movement | (48) | 13 |
| Premiums received | (82) | (346) |
| AGM commutation | (2,025) | - |
| Premiums receivable ending balance | <u>\$ -</u> | <u>\$ 2,159</u> |

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

9. SEGMENT INFORMATION

The determination of reportable segments is based on how management monitors the Company's underwriting operations. Management monitors the performance of its underwriting operations based on the markets and customers served and the type of accounts written. The Company is currently organized into three operating segments: property/casualty insurance and reinsurance, financial guaranty and corporate/other. All product lines fall within these classifications. The property/casualty segment provides insurance and reinsurance primarily related to US short-tail personal lines. This segment also contains an allocation of a portion of the AORE overhead expenses related to AORE's property/casualty reinsurance business, thus increasing the segment's overall operating expenses. The financial guaranty segment includes AORE's financial guaranty operations which were fully commuted in 2020 and the Company has no plans to re-enter that market. As the Company does not manage its assets by segment, investment income, interest expense and total assets are not allocated to individual reportable segments.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

9. SEGMENT INFORMATION (cont'd)

The following tables provide a summary of the segment results.

| (dollars in thousands) | December 31, 2020 | | | |
|---|--------------------------|-----------------|------------------|--------------|
| | <u>Property/Casualty</u> | Financial | | <u>Total</u> |
| | | <u>Guaranty</u> | <u>Corporate</u> | |
| Net premiums earned | \$ 15,836 | \$ (3,513) | \$ - | \$ 12,323 |
| Net change in fair value of credit derivatives | - | 2 | - | 2 |
| Losses and loss adjustment expenses | (8,945) | (1,577) | - | (10,522) |
| Acquisition expenses | (4,968) | 130 | - | (4,838) |
| Underwriting gain (loss) | 1,923 | (4,958) | - | (3,035) |
| | | | | |
| Fee income | 9,946 | - | - | 9,946 |
| Net investment income | - | - | 709 | 709 |
| Other income | - | - | - | - |
| Net realized gain on sales of investments | - | - | 1,580 | 1,580 |
| Fair value adjustment | - | - | (173) | (173) |
| Gain on the sale of real estate | - | - | 323 | 323 |
| Operating expenses | (11,040) | (1,825) | 64 | (12,801) |
| Interest expense | - | - | (1,803) | (1,803) |
| Amortization expense | - | - | - | - |
| Other expense | - | - | (78) | (78) |
| Income tax | 322 | - | - | 322 |
| Net income (loss) before non controlling interest | \$ 1,151 | \$ (6,783) | \$ 622 | \$ (5,010) |

| (dollars in thousands) | December 31, 2019 | | | |
|---|--------------------------|-----------------|------------------|--------------|
| | <u>Property/Casualty</u> | Financial | | <u>Total</u> |
| | | <u>Guaranty</u> | <u>Corporate</u> | |
| Net premiums earned | \$ 8,824 | \$ (14,247) | \$ - | \$ (5,423) |
| Net change in fair value of credit derivatives | - | 265 | - | 265 |
| Losses and loss adjustment expenses | (3,701) | (3,773) | - | (7,474) |
| Acquisition expenses | (4,752) | 3,125 | - | (1,627) |
| Underwriting gain (loss) | 371 | (14,630) | - | (14,259) |
| | | | | |
| Fee income | 11,591 | - | - | 11,591 |
| Net investment income | - | - | 2,447 | 2,447 |
| Other income | - | - | 383 | 383 |
| Net realized gain on sales of investments | - | - | 1,824 | 1,824 |
| Fair value adjustment | - | - | 10,586 | 10,586 |
| Operating expenses | (10,741) | (2,753) | (111) | (13,605) |
| Interest expense | - | - | (1,803) | (1,803) |
| Amortization expense | - | - | - | - |
| Other expense | - | - | - | - |
| Income tax | (287) | - | - | (287) |
| Net income (loss) before non controlling interest | \$ 934 | \$ (17,383) | \$ 13,326 | \$ (3,123) |

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

10. COMMITMENTS AND CONTINGENCIES

The insurance and reinsurance subsidiaries of the Company are involved in various claims and legal actions arising in the ordinary course of business. Some claims allege breach of good faith and fair dealing; however, those entities are vigorously defending their position, and in the opinion of management, the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations or cashflows.

11. LEASES

The Company has 4 operating leases comprised of two vehicles, a copier, and office space. The vehicles and copier have a remaining lease term of less than 1 year and have fixed lease payments. The office space has a remaining lease term of 7 years and 8 months, includes a lease schedule reflecting increases each year and includes renewal options up to 10 years.

The components of lease expense were as follows:

| | <u>December 31, 2020</u> |
|----------------------|--------------------------|
| Operating lease cost | \$ 330,423 |
| Total lease cost | \$ 330,423 |

Supplemental cash flow information related to leases was as follows:

| | |
|--|------------|
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows from operating leases | \$ 342,786 |

Supplemental balance sheet information related to leases was as follows:

| | |
|-------------------------------------|--------------|
| <i>Operating leases</i> | |
| Operating lease right-of-use assets | \$ 1,703,272 |
| Current operating lease liabilities | \$ 1,960,277 |

Other information:

| | |
|---|-------|
| Weight average remaining lease term - operating | 7.61 |
| Weight average discount rate - operating | 6.01% |

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

11. LEASES (cont'd)

December 31, 2019

| | |
|----------------------|------------|
| Operating lease cost | \$ 330,423 |
| Total lease cost | \$ 330,423 |

Supplemental cash flow information related to leases was as follows:

Cash paid for amounts included in the measurement of lease liabilities

| | |
|--|------------|
| Operating cash flows from operating leases | \$ 338,520 |
|--|------------|

Supplemental balance sheet information related to leases was as follows:

Operating leases

| | |
|-------------------------------------|--------------|
| Operating lease right-of-use assets | \$ 1,908,178 |
|-------------------------------------|--------------|

| | |
|-------------------------------------|--------------|
| Current operating lease liabilities | \$ 2,177,546 |
|-------------------------------------|--------------|

Other information:

| | |
|---|------------|
| Weight average remaining lease term - operating | 8.48 years |
| Weight average discount rate - operating | 6.04% |

Future minimum lease payments as of December 31, 2020 are as follows:

| | | | |
|--|-----------------|----|-----------|
| | 2021 | \$ | 319,013 |
| | 2022 | | 308,610 |
| | 2023 | | 312,877 |
| | 2024 | | 317,143 |
| | 2025 | | 321,410 |
| | Thereafter | | 877,477 |
| | Total | \$ | 2,456,530 |
| | Less: Interest | | (496,253) |
| | Lease Liability | \$ | 1,960,277 |

As of December 31, 2020, the Company has no additional operating leases that have not yet commenced.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

12. REDEEMABLE SERIES A PREFERENCE SHARES

On December 14, 2006, AOG issued 75,000 Series A Preference Shares at \$1,000 per share for total consideration of \$75.0 million. The Series A Preference Shares have a par value of \$0.10 per share and a redemption value of \$1,000 per share. Until December 15, 2016, the Series A Preference Shares bear a non-cumulative, non mandatory dividend rate of 7.50%, which is payable semi-annually on June 15 and December 15 each year upon declaration by the Board of Directors. After December 15, 2016, if the Series A Preference Shares have not been redeemed or repurchased, they bear a non-cumulative, non-mandatory dividend rate of Three-Month LIBOR (as defined in the Series A Certificate of Designations) plus 3.557%, which is payable quarterly on the 15th day of March, June, September and December of each year, beginning on March 15, 2017, upon declaration by the Board of Directors. Unless previously redeemed, the Series A Preference Shares have a mandatory redemption date of December 15, 2066. AOG can redeem the Series A Preference Shares at any time from December 15, 2016 with no penalty to AOG.

On May 12, 2009, the Board determined to suspend payment of dividends on the Series A Preference Shares; therefore, during the years ended December 31, 2020 and 2019, there were no dividends declared or paid. The payment of preference share dividends is classified as interest expense.

After a series of tender offers and private repurchases, 38,600 Series A Non –Cumulative Preference Shares remained outstanding as of December 31, 2019. In a series of several transactions which occurred during 2020, the remaining 38,600 Series A Preference Shares were repurchased by the Company. There were no outstanding Series A Preference Shares as of December 31, 2020.

13. NONCONTROLLING INTEREST

On December 23, 2003, AORE entered into a \$50.0 million soft capital facility whereby it was granted the right to exercise perpetual put options in respect of its Class B Preference Shares against the counterparty to the option agreement, in return for which it paid the counterparty a floating put option fee through February 17, 2009. The counterparty was a trust established by an investment bank. The trust was created as a vehicle for providing capital support to AORE by allowing it to obtain, at its discretion and subject to the terms of the option agreement, access to new capital through the exercise of a put option and the subsequent purchase by the trust of AORE's Class B Preference Shares. On February 17, 2009, AORE exercised the put option in the soft capital facility and issued 500.01 Class B Preference Shares to the trust in exchange for \$50,001,000 of proceeds. On March 16, 2009, AORE elected to pay a fixed rate dividend on the Class B Preference Shares, as a result of which the Class B Preference Shares were distributed to the holders of the trust's securities. As a result of the fixed rate election, if declared by the board, dividends are payable on the Class B Preference Shares every 90 days at a rate of 6.276%. The Class B Preference Shares give investors the rights of a preferred equity investor in AORE. Such rights are subordinate to insurance claims, as well as the general unsecured creditors of AORE. The Class B Preference Shares are not rated by S&P since AORE requested the withdrawal of its ratings during 2009 and have not been rated by Moody's. AORE has the option to redeem the Class B Preference Shares, subject to certain specified terms and conditions.

Following the settlement of previous repurchases, 373.01 shares of Class B Preference Shares remained outstanding at December 31, 2020 and 2019. The remaining value of the Class B Preference Shares of \$6.1 million is included as a "Noncontrolling Interest" in the Company's Consolidated Balance Sheets as of December 31, 2020 and 2019.

On July 21, 2014 AORE established an irrevocable trust (the "Class B Security Trust") for the benefit of the holders of its Class B Preference Shares. The Company deposited assets valued at \$2.050 million in the Class B Security Trust. Butterfield Trust Company has been appointed as its trustee. The Company has been authorized to redeem Class B Shares at any time for the amount that is not in excess of the Holder's pro-rata share of the assets in the Class B Security

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

13. NONCONTROLLING INTEREST (cont'd)

Trust. In 2019, the invested assets held in the Class B Security Trust were sold (see Note 4 – Investments for details) and the proceeds of \$2.8 million were held in restricted cash. In 2020, the entire proceeds of \$2.8 million from the 2019 sale were reinvested and held in the trust account. The market value of the Class B Security Trust is \$3.1 million as of December 31, 2020.

If declared by the board, dividends are payable on the Class B Preference Shares every 90 days at a rate of 6.276%. The dividend payment would also be subject to the Companies Act of Barbados which restricts dividend payments except from realizable profits (retained earnings). Dividends on the Class B Preference Shares are currently non-cumulative. The terms of AORE's Class B Preference Shares restrict AORE's ability to pay dividends on its common shares unless all accrued and unpaid dividends on the Class B Preference Shares for the then current dividend period have been declared and paid or a sum sufficient for payment thereof set apart, except that AORE may to declare dividends on its common shares in such amounts as are necessary for AOG (i) to service indebtedness for borrowed money as such payments become due (or to satisfy any of its guaranty obligations made in respect of AORE or AOG) or (ii) to pay its operating expenses.

If AORE fails to pay dividends in full on the Class B Preference Shares for eighteen consecutive months then the number of members on the Board of Directors of AORE is automatically increased by two with the holders of the Class B Preference Shares having the ability to elect the two additional directors. In 2017, as a dividend had not been paid for 18 months, pursuant to the Articles of Continuance of the Company, the number of directors on the Board automatically increased by two and the holders of the Class B shares were entitled to elect directors to serve. The Company thus called a Special Meeting of the Class B shareholders for July 14, 2017. As a quorum of holders of Class B Preference Shares was not present for the meeting, no meeting was held.

There were dividends of nil and \$0.6 million paid to the Class B preference shareholders in 2020 and 2019, respectively.

14. SHARE CAPITAL

As at December 31, 2020 and 2019, authorized common share capital was \$9,000,000. As at December 31, 2020 and 2019, there were 10,000,000 authorized undesignated preference shares with a par value of \$0.10 each. Common shares and additional paid in capital are presented net of treasury shares held by the company and its subsidiaries.

The following table shows a roll forward of the issued, outstanding and unissued common shares for the years ended December 31, 2019 and 2020:

| | Outstanding share capital | Outstanding Shares | Treasury Shares | Issued Shares | Unissued Shares |
|--|------------------------------|-----------------------|--------------------|---------------|-----------------|
| As at December 31, 2018 | \$ 4,612,400 | 46,124 | 42 | 46,166 | 43,834 |
| Issued restricted stock awards during the year | 5,500 | 55 | - | 55 | (55) |
| As at December 31, 2019 | \$ 4,617,900 | 46,179 | 42 | 46,221 | 43,779 |
| Issued restricted stock awards during the year | 80,000 | 800 | - | 800 | (800) |
| As at December 31, 2020 | \$ 4,697,900 | 46,979 | 42 | 47,021 | 42,979 |

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

15. SHARE BASED COMPENSATION

As of April 26, 2006, AOG adopted the 2006 Equity Plan (the “AOG Plan”). The number of common shares that may be issued under the AOG Plan may not exceed 4,500. In the event of certain transactions affecting the common shares of the Company, the number or type of shares subject to the AOG Plan, the number and type of shares subject to outstanding awards under the Plan, and the exercise price of awards under the AOG Plan will be adjusted in accordance with the terms of the AOG Plan. The AOG Plan authorizes the grant of share options, share appreciation rights, share awards, restricted share units, performance units, or other awards that are based on AOG’s common shares. The awards granted are contingent on the achievement of service conditions during a specified period, and may be subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the participant. Awards under the AOG Plan may accelerate and become vested upon a change in control of the Company. The AOG Plan is administered by the Board of Directors. The AOG Plan is subject to amendment or termination by the board.

As at December 31, 2020, outstanding awards under the AOG Plan consisting of 1,471 share options and 87 restricted share units had been granted to the Company’s directors, officers, employees and consultants. Each of the options vest in equal annual installments over a four-year period and will expire at the earlier of the tenth anniversary of the date of grant or the expiration of the AOG Plan. The grant price is the average of the highest and lowest quoted selling price on the grant date. In 2020 and 2019, there were no stock options granted. Restricted share units vest in equal annual installments over a four-year period. In 2020, for the restricted share units issued in 2019, the board of AOG elected to accelerate the vesting to 100%.

Stock options

Compensation cost is recognized on a straight-line basis over the vesting period and is net of estimated pre-vesting forfeitures of 10% for both periods. The estimated forfeiture rate is based on future forfeiture expectations. At December 31, 2020, the weighted average grant date fair value for options issued subsequent to January 1, 2006 was \$811.43. The Company expensed \$0.1 million and \$0.2 million in compensation expense related to the stock options for the years ended December 31, 2020 and 2019 respectively. As at December 31, 2020, there was \$14,454 of unrecognized compensation expense related to the stock options granted subsequent to January 1, 2006, which is expected to be recognized over the weighted average remaining service period of 0.22 years. For both the twelve month periods ended December 31, 2020 and 2019, the Company recognized no compensation expense for share options with an exercise price less than the market value of the underlying common shares on the date of the grant.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

15. SHARE BASED COMPENSATION (cont'd)

The following tables summarize the stock option activity for the years ended December 31, 2020 and 2019:

Stock option activity

| | Number of Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value ⁽¹⁾ |
|-------------------------------------|-----------------------------|--|--|---|
| Year ended December 31, 2020 | | | | |
| Options | | | | |
| Outstanding - beginning of year | 1,576 | \$ 830.35 | | |
| Granted | - | - | | |
| Expired | (30) | 700.00 | | |
| Forfeited | <u>(75)</u> | 850.00 | | |
| Outstanding - end of year | <u>1,471</u> | 832.01 | 4.80 | \$ - |
| Exercisable - end of year | 1,365 | \$ 842.26 | 4.69 | \$ - |
| | | | | |
| | Number of Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value ⁽¹⁾ |
| Year ended December 31, 2019 | | | | |
| Options | | | | |
| Outstanding - beginning of year | 1,576 | \$ 830.35 | | |
| Granted | - | - | | |
| Exercised | - | - | | |
| Forfeited | <u>-</u> | - | | |
| Outstanding - end of year | <u>1,576</u> | 830.35 | 5.71 | \$ - |
| Exercisable - end of year | 1,364 | \$ 850.61 | 5.47 | \$ - |

- 1) The aggregate intrinsic value was calculated based on the market value of \$100.00 and \$325.00 as at December 31, 2020 and 2019, respectively, and is calculated as the difference between the market value and the exercise price of the underlying options.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

15. SHARE BASED COMPENSATION (cont'd)

Restricted share units

The following table summarizes the restricted share unit activity for the years ended December 31, 2020 and 2019:

Restricted Share Units

| | <u>Number of share units</u> | <u>Weighted average grant date fair value per share</u> |
|-------------------------------------|---|--|
| Year ended December 31, 2020 | | |
| Restricted Share Units | | |
| Non-vested - beginning of year | 974 | \$ 309.86 |
| Granted | - | - |
| Vested | (887) | 271.59 |
| Forfeited | - | - |
| Non-vested - End of year | <u>87</u> | <u>\$ 700.00</u> |
| | | |
| | <u>Number of share units</u> | <u>Weighted average grant date fair value per share</u> |
| Year ended December 31, 2019 | | |
| Restricted Share Units | | |
| Non-vested - beginning of year | 317 | \$ 812.85 |
| Granted | 800 | 225.00 |
| Vested | (143) | 950.17 |
| Forfeited | - | - |
| Non-vested - End of year | <u>974</u> | <u>\$ 309.86</u> |

The Company expensed \$0.1 million and \$0.1 million in compensation expense related to the restricted share units for the years ended December 31, 2020 and 2019 respectively under the AOG Plan. The compensation expense for restricted share units is expensed on a prorated basis over the vesting period. At December 31, 2020, there is no remaining unrecognized compensation expense related to the non-vested restricted share units under the AOG Plan.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

16. EARNINGS (LOSS) PER SHARE

Basic earnings per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share shows the dilutive effect of all stock options and restricted share units outstanding during the period that could potentially result in the issuance of common shares. The calculation of diluted loss per share excludes the dilutive effect of stock options and restricted share awards outstanding because it would otherwise have an anti-dilutive effect on net loss per share. The weighted average number of common and common share equivalents outstanding is calculated using the treasury stock method for all potentially dilutive securities.

As of December 31, 2020 and 2019, there were 1,471 and 1,576, respectively, of stock options excluded from the diluted earnings per share calculation because they were anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|----------------|----------------|
| Net loss available to common shareholders | \$ (5,009,956) | \$ (3,708,517) |
| Basic weighted-average shares | 46,490 | 46,161 |
| Effect of stock options | - | - |
| Effect of restricted share units | 537 | 120 |
| Diluted weighted-average shares | 47,027 | 46,281 |
| Basic loss earnings per share | \$ (107.76) | \$ (80.34) |
| Diluted loss earnings per share | \$ (106.53) | \$ (80.13) |

17. RISKS AND UNCERTAINTIES

The Company has not renewed its reinsurance treaties with any of the financial guaranty primaries or otherwise written any new financial guaranty business in 2020 or 2019. The Company has commuted all remaining outstanding par as of April 1, 2020, and no longer has any exposure to financial guaranty cessions.

The Company continues to evaluate its financial condition and capital adequacy and may pursue a different set of strategies in the future. There can be no assurance that the strategies that have been implemented or that will be pursued in the future in connection with this evaluation will improve the Company's business, financial condition, liquidity or results of operations or will not have a material adverse effect on the Company. Management believes that the Company has sufficient capital resources and liquidity to meet its obligations for at least the next twelve months and therefore that the Company remains a "going concern."

AOG is a holding company and therefore its liquidity, both on a short-term basis (for the next twelve months) and a long-term basis (beyond the twelve months), is largely dependent upon (1) the ability of its subsidiaries to pay dividends or make other payments to AOG and (2) its ability to access debt and equity markets, which is unlikely in the near term given current market conditions and AOG's current share valuation. AOG's principal uses of liquidity are for payment of operating expenses, debt service on the senior notes payable and capital investments in its subsidiaries. As of December 31, 2020, AOG has \$0.7 million of cash and investments and believes that it will have sufficient liquidity to meet its requirements over at least the next twelve months. The Company's ability to declare and pay dividends to AOG may be influenced by a variety of factors such as adverse loss development, amount and timing of claims payments, adverse market changes, insurance regulatory changes, changes in general economic conditions beyond the next twelve months and Barbados law. The Company believes that AOG's expected liquidity needs can be funded from its operating and investing cash flows for the next twelve months.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

17. RISKS AND UNCERTAINTIES (cont'd)

AOG's property/casualty segment generates substantial cash flows from its fee-based model. The principal uses of liquidity for those entities are the payment of operating expenses, debt service on subsidiary notes and capital investment in property/casualty subsidiaries. The property/casualty subsidiaries are highly leveraged through their reinsurance arrangements, and disputes with reinsurers could severely impact the liquidity of these subsidiaries. The property/casualty subsidiaries attempt to mitigate this exposure by holding collateral from their reinsurers. The subsidiaries held \$207.5 million of collateral compared to \$232.1 million of balances at December 31, 2019 and such amounts are included in reinsurance balances received net on the consolidated balance sheet.

At December 31, 2020, the Company had \$101.6 million of cash and investments of which \$78.8 million was held in trust for the benefit of our ceding companies and others, leaving \$22.8 million cash and investments available to support ongoing business. See Note 3 – Pledged Assets, for further information regarding these trust accounts.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

18. VARIABLE INTEREST ENTITIES

OACM is a mutual insurance company that is owned by its policyholders; however, the Company effectively has complete control over OACM through the management contract in place between the two entities, and is therefore the primary beneficiary. The Company has determined that OACM is a variable interest entity and is included in these consolidated financial statements. The interests that OACM's policyholders have in its financial position are included as non-owned interest in VIE totaling \$0.3 million at December 31, 2020 and December 31, 2019.

Creditors have no recourse against the Company in the event of default by OACM nor does the Company have any implied or unfunded commitments to OACM. The Company's financial or other support provided to OACM is limited to its management services and original investment.

The following OACM balances have been included in the Company's consolidated financial statements at December 31, 2020 and 2019 with appropriate eliminations being made for intercompany balances:

| | 2020 | 2019 |
|--|----------------|----------------|
| ASSETS: | | |
| Cash | \$ 14,645,462 | \$ 14,002,195 |
| Investments | 46,773,401 | 41,992,980 |
| Premiums receivable | 54,364,428 | 74,875,706 |
| Reinsurance balances receivable | 174,646,079 | 195,174,796 |
| Deferred reinsurance premiums | 88,646,603 | 112,612,640 |
| Other assets | 1,599,043 | 476,975 |
| | \$ 380,675,016 | \$ 439,135,292 |
| LIABILITIES: | | |
| Unpaid losses and loss adjustment expenses | \$ 168,870,301 | \$ 180,403,365 |
| Unearned premium | 88,646,603 | 112,612,640 |
| Ceded premium payable | 59,069,253 | 86,893,191 |
| Payable to general agents | 154,019 | 165,825 |
| Funds withheld | 52,680,702 | 52,664,758 |
| Accounts payable and accrued expenses | 4,630,130 | 283,049 |
| Due to parent and affiliates | 319,755 | 677,803 |
| | \$ 374,370,763 | \$ 433,700,631 |
| EQUITY: | | |
| Policyholders' surplus | \$ 300,000 | \$ 300,000 |
| Surplus debenture | 4,700,000 | 4,700,000 |
| Accumulated other comprehensive loss | 1,304,253 | 434,661 |
| Total equity | \$ 6,304,253 | \$ 5,434,661 |
| Total Liabilities and Equity | \$ 380,675,016 | \$ 439,135,292 |

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

19. BUSINESS CONCENTRATION

The Company's property casualty insurance subsidiaries, OACM and Old American Indemnity Company ("OA Indemnity"), produce business through unrelated managing general agencies. In 2020, five of these managing general agencies produced approximately 70.0% of OACM's gross premium writings and of the Company's gross written premiums plus policy fees. In 2020, one managing general agent produced approximately 82.4% of OA Indemnity's gross premium writings and of the Company's gross written premiums plus policy fees.

20. GOODWILL AND INTANGIBLE ASSETS

The Company performs its impairment analysis of goodwill and indefinite-lived intangible assets annually as of December 31.

In conjunction with the acquisition of OA Indemnity in 2010, the Company recorded intangible assets of \$300,000, representing the fair value of six insurance licenses acquired. The impairment analysis for this indefinite-lived intangible asset is performed on the licenses aggregated as a single unit of accounting. The fair value is determined by comparing the fair value of insurance company licenses based on observable inputs. Based upon the results of the assessment, the Company concluded that the carrying value of this intangible asset was not impaired as of December 31, 2020.

In conjunction with the acquisition of OACM in 2012, the Company recorded intangible assets and goodwill. The impairment analysis for the indefinite-lived asset of \$4,500,000 associated with the insurance license acquired was performed on this license as a unit of accounting separate from the insurance licenses of OA Indemnity. The fair value is determined by comparing the fair value of insurance company licenses, with the underlying assumption that OACM's license continues to represent the value of multiple insurance licenses due to its unique ability to operate under multiple rate filing structures within a single state. Based on the number of active managing agencies using multiple rate filings in OACM, the Company concluded that the carrying value of this intangible asset was not impaired as of December 31, 2020.

The impairment analysis was performed on OACM as the reporting unit. The fair value was determined using a discounted cash flow analysis for the revenues and operating expenses associated with this reporting unit. The fair value was compared to the carrying value of the goodwill and intangible assets net of accumulated amortization, and the fair value exceeded the carrying value of those items. Accordingly, it was determined that the carrying value of goodwill was not impaired as of December 31, 2020.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

20. GOODWILL AND INTANGIBLE ASSETS (cont'd)

The gross and net carrying amounts of intangible assets by major category as of December 31, 2020 and 2019 are as follows:

| | <u>Gross</u> | <u>Accumulated Amortization</u> | <u>Net</u> |
|-------------------------------|----------------------|-------------------------------------|---------------------|
| As of December 31, 2020 | | | |
| Insurance licenses | \$ 4,800,000 | \$ - | \$ 4,800,000 |
| Customer relationships | 12,100,000 | 12,100,000 | - |
| Internally developed software | <u>350,000</u> | <u>350,000</u> | <u>-</u> |
| Intangible assets | <u>\$ 17,250,000</u> | <u>\$ 12,450,000</u> | <u>\$ 4,800,000</u> |
| As of December 31, 2019 | | | |
| Insurance licenses | \$ 4,800,000 | \$ - | \$ 4,800,000 |
| Customer relationships | 12,100,000 | 12,100,000 | - |
| Internally developed software | <u>350,000</u> | <u>350,000</u> | <u>-</u> |
| Intangible assets | <u>\$ 17,250,000</u> | <u>\$ 12,450,000</u> | <u>\$ 4,800,000</u> |

Insurance licenses are not amortized because they have an indefinite life. Finite-lived intangible assets are amortized over their respective useful lives. Customer relationships are amortized to align with the expected economic benefit of the income associated with those relationships, through 2015. Internally developed software is amortized on a straight-line basis over its useful life of 3 years. The management contract will expire on January 1, 2036. Unless renewed, the Company will not own the rights to manage OACM after that date.

21. NOTES PAYABLE

Prior to the amalgamation a subsidiary of OGL had outstanding debt (the "OACC Notes") which was renegotiated in connection therewith. The subsidiary issued a Senior Secured Note in the amount of \$20 million, which was to mature on October 28, 2039 (the "2014 OACC Notes"). Interest on the 2014 OACC Notes was payable in quarterly installments at a fixed rate of 12.0% per annum

In 2015, a partial repayment of \$1.6 million of principal was made on the 2014 OACC Notes and a series of new Series A Secured Senior Notes (the "2015 OACC Notes") were issued to replace and superseded the note that had been previously issued. The notes will mature on January 1, 2040 and pay interest in quarterly installments at a fixed rate of 12.0% per annum. Principal repayments of nil were made in 2020 and 2019, respectively, on the 2015 OACC Notes. As of December 31, 2020, \$0.3 million in interest was accrued and unpaid on the \$10.5 million remaining balance of the 2015 OACC Notes.

In connection with the acquisition of OGL, AOG issued \$43.9 million of Senior Notes (the "AOG Notes") to the former shareholders of OGL that mature on October 28, 2039. Interest on the AOG notes is payable in quarterly installments at a fixed rate of 9.0% per annum. Principal repayments of nil were made in 2020 and 2019, respectively, on the AOG Notes. As of December 31, 2020, \$0.1 million in interest was accrued and unpaid on the remaining balance of \$6.0 million on the AOG Notes.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

21. NOTES PAYABLE (cont'd)

Directors and family members of AOG and its subsidiaries held notes payable in the aggregate principal amount of approximately \$8.6 million at December 31, 2020 and 2019.

On January 27, 2020, AOG entered into a \$4.0 million promissory note with AORE that has a 6% interest rate. On October 19, 2020, AOG entered into a \$4.0 million promissory note with AORE that has a 6% interest rate. On December 17, 2020 a \$0.5M principal payment was made on the January 27, 2020 promissory note. As of December 31, 2020, the remaining balance is \$7.5 million and nil in accrued interest.

In 2019, the balance of \$1.5 million of a \$3.0 million promissory note with AORE was repaid including interest owed.

22. TAXATION

The Company has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until March 31, 2035. At the present time, no such taxes are levied in Bermuda.

In September 2014, AOG and OGL each became tax resident in the U.K., although they will both remain Bermuda-based companies. As companies that are not incorporated in the U.K., each intends to manage their affairs in such a way as to establish and maintain status as tax resident in the U.K. As U.K. tax resident companies, both AOG and OGL are required to file corporation tax returns with Her Majesty's Revenue & Customs ("HMRC"). Each is subject to U.K. corporation tax in respect of its worldwide profits (both income and capital gains), subject to any applicable exemptions. The main rate of corporation tax is 20% currently; such rate fell from 21% as of April 1, 2015. The Company does not expect that AOG's or OGL's becoming U.K. tax resident will result in any material change in the group's overall tax charge. The Company expects that the dividends received by AOG or OGL from their direct subsidiaries will be exempt from U.K. corporation tax due to the exemption in section 931D of the U.K. Corporation Tax Act 2009. In addition, any dividends paid by AOG to its shareholders should not be subject to any withholding tax in the U.K. The U.K. government implemented a new tax regime for "controlled foreign companies" ("CFC regime") effective January 1, 2013. The Company does not expect any profits of non-U.K. resident members of the group to be taxed under the CFC regime.

AORE was registered as an Exempt Insurance Company and is licensed under the Exempt Insurance Act of Barbados, 1983 CAP 308. Effective January 1, 2019, this was repealed and the Insurance Act Cap. 310 was amended to provide for three (3) classes of licenses.

Insurance entities are assigned one of the classes below depending on whether they underwrite third or related party risks and the percentage of related party risk they can underwrite.

- Class 1 category will include insurance companies which restrict the business they can underwrite to related party business. These insurance entities will be taxed at zero percent.
- Class 2 category will include insurance entities which can underwrite risks of third parties. These companies will be taxed at a rate of 2%.
- Class 3 will include insurance intermediaries, insurance management companies and insurance holding companies. These companies will be taxed at a rate of 2%.

As allowed by the regulation, AORE has chosen to be grandfathered under the existing regime, which will expire on June 30, 2021.

Some of our subsidiaries are subject to U.S. taxation and file a consolidated U.S. federal income tax return. We believe that our other non-US companies are not engaged in a trade or business in the U.S. and, accordingly, we do not expect those companies to be subject to U.S. taxation.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

22. TAXATION (cont'd)

The provision for income taxes for the years ended December 31, consisted of the following:

| | 2020 | 2019 |
|----------------------|---------------------|-------------------|
| Current tax expense | \$ - | \$ - |
| Deferred tax expense | (322,200) | 286,944 |
| Income tax expense | <u>\$ (322,200)</u> | <u>\$ 286,944</u> |

The expected tax provisions in taxable jurisdictions is calculated as the sum of pretax income in those jurisdictions multiplied by the statutory tax rate of the jurisdiction by which it will be taxed. Pretax income of the Company's subsidiaries which are not U.S. domiciled but are subject to U.S. tax by election are included at the U.S. statutory tax rate of 21% for 2020 and 2019.

| | 2020 | 2019 |
|--|---------------------|--------------------|
| Net (loss) before income tax | \$ (5,332,076) | \$ (2,836,320) |
| Adjustment for non-taxable entities | <u>8,363,300</u> | <u>6,297,447</u> |
| Taxable income before income tax expense | \$ 3,031,224 | \$ 3,461,127 |
| Expected tax benefit at statutory rates in taxable jurisdictions | 636,557 | 726,837 |
| Increases (reductions) in taxes resulting from: | | |
| Exclusion of profit from VIE not included in consolidated | | |
| Valuation allowance | (793,786) | 565,644 |
| Other | <u>(164,890)</u> | <u>(1,005,537)</u> |
| Income tax expense | <u>\$ (322,119)</u> | <u>\$ 286,944</u> |
| Effective tax rate | <u>-11%</u> | <u>8%</u> |

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

22. TAXATION (cont'd)

Tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and deferred tax liabilities at December 31, 2020 and 2019 were as follows:

| | 2020 | 2019 |
|--|----------------------|-------------------------|
| Deferred tax assets: | | |
| Net operating loss carryforward | \$ 5,126,672 | \$ 4,940,032 |
| Unearned premium reserves | 35,765 | 26,545 |
| Discounted unpaid losses and loss adjustment expenses | 10,551 | 5,006 |
| Goodwill and other intangible assets | <u>-</u> | <u>-</u> |
| Total deferred tax assets | <u>5,172,988</u> | <u>4,971,583</u> |
| Deferred tax liabilities: | | |
| Deferred acquisition costs | 77,038 | 108,166 |
| Intangible Assets | <u>3,554,075</u> | <u>2,849,875</u> |
| | 3,631,113 | 2,958,041 |
| Deferred tax assets, net, before valuation allowance | 1,541,875 | 2,013,542 |
| Valuation allowance | <u>(1,541,875)</u> | <u>(2,335,661)</u> |
| Deferred tax liability, net | <u>\$ -</u> | <u>\$ (322,119)</u> |

As of December 31, 2020, the Company had net operating loss carry forwards of \$24,412,725 the expiration of which is as follows:

| | |
|----------|-----------|
| 2032 | 4,098,493 |
| 2033 | 9,215,338 |
| 2034 | 8,016,412 |
| 2035 | - |
| 2036 | 643,666 |
| 2037 | 962,836 |
| 2038 | - |
| 2039 | 775,003 |
| 2040 est | 700,977 |

As of December 31, 2020 and 2019, the Company has no tax positions for which management believes a provision for uncertainty is necessary. The Company's U.S. federal income tax returns for all tax years are subject to examination by the Internal Revenue Service.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

23. REINSURANCE

The Company has various quota share reinsurance agreements with reinsurers. The Company remains liable to its policyholders for all of its policy obligations and the reinsuring companies are obligated to the Company to the extent of the reinsured portion of the risks. Balances are presented gross of the reinsurance agreements in the accompanying consolidated financial statements.

Due to the nature of the OACM's reinsurance programs, a concentration of credit risk exists with five reinsurers that have net balances due in excess of 5% of OACM's total receivable balances in 2020. These five reinsurers account for approximately 70% of the total net recoverable from reinsurers, and 58% for 2019. OACM reinsures substantially all of its business, and monitors the credit quality of its reinsurers to ensure that its cessions are to financially sound reinsurers. Collateral which includes funds held in trust and letters of credit are obtained both to satisfy regulatory requirements for reinsurers not authorized, and to address the Company's credit concerns related to less highly rated reinsurers. As of December 31, 2020, all of the reinsurance recoverables were either collateralized or due from A.M. Best rated A- or better reinsurers. Substantially all of the balances ceded to reinsurers rated less than A are collateralized. During 2020 and 2019, OACM obtained collateral totaling \$186.4 million and \$213.3 million respectively, to offset the overall reinsurance credit risk. If the counterparties to these reinsurance contracts completely failed to perform under these contracts, which management believes is a remote possibility, the potential loss to the Company is the amount of the uncollateralized reserves for losses and loss adjustment expenses, reinsurance recoverable, and unearned premium net of reinsurance payable, which is approximately \$82.9 million as of December 31, 2020 as compared to \$91.6 million for 2019.

With OA Indemnity's reinsurance programs, a concentration of credit risk exists with seven reinsurers that have net balances due in excess of 5% of OA Indemnity's total receivable balances in 2020. These seven reinsurers account for approximately 83% of the total net recoverable from reinsurers, and 88% for 2019. During 2020, OA Indemnity obtained collateral and letters of credit totaling \$21.0 million to offset the overall reinsurance credit risk. If the counterparties to these reinsurance contracts completely failed to perform under these contracts, which management believes is a remote possibility, the potential loss to the Company is the amount of the uncollateralized reserves for losses and loss adjustment expenses, reinsurance recoverable, and unearned premium net of reinsurance payable, which is approximately \$13.0 million as of December 31, 2020 as compared to \$13.7 million as of December 31, 2019.

24. STATUTORY REQUIREMENTS

Each of the Company's insurance companies' ability to pay dividends depends, among other things, upon their financial condition, results of operations, cash requirements, compliance with rating agency requirements, and is also subject to restrictions contained in the insurance laws and related regulations of their state of domicile and other states. Financial statements prepared in accordance with accounting practices prescribed or permitted by local insurance regulatory authorities differ in certain respects from GAAP.

The Company's U.S. domiciled insurance companies are subject to risk-based capital standards and other minimum and capital and surplus requirements. The Company's U.S. domiciled insurance companies prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the National Association of Insurance Commissioners ("NAIC") and their respective insurance departments. Prescribed statutory accounting practices are set forth in the NAIC Accounting Practices and Procedures Manual. The Company has no permitted accounting practices on a statutory basis. OA Indemnity is subject to NAIC risk based capital standards and other minimum capital and surplus requirements, including the laws of Kentucky. Kentucky laws provide that without prior approval of its domiciliary commissioner, dividends to shareholders may not be paid except out of the part of surplus funds which is derived from realized net profits. Surplus funds for the purposes of this calculation are defined as the excess of assets over liabilities, including capital stock as a liability. There are no other restrictions placed on the portion of OA Indemnity's profits that may be paid as ordinary dividends to its shareholder. As of December 31, 2020, OA Indemnity had statutory capital and surplus of \$11.8 million, which was in excess of any risk-based capital levels that would require corrective actions. As a Texas county mutual, OACM is not subject to NAIC risk based capital provisions. The minimum required capital and surplus of OACM is \$5 million as provided by Texas insurance law, which is the amount of capital and surplus of the entity as of December 31, 2020.

AMERICAN OVERSEAS GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

24. STATUTORY REQUIREMENTS (cont'd)

The Company's Barbados domiciled insurance companies are required to maintain a minimum level of solvency under the Barbados Exempt Insurance Act 1983 (the "Exempt Insurance Act"). For the purpose of compliance with the solvency criteria under the Exempt Insurance Act, assets and liabilities are calculated in accordance with US GAAP. The Barbados domiciled insurance companies also must comply with the provisions of the Barbados Companies Act regulating the payment of dividends and making of distributions from contributed surplus. A company is prohibited from declaring or paying a dividend, if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due or (b) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and stated capital. The excess of AORE's assets over the aggregate of its liabilities at December 31, 2020 was \$4.2 million. The minimum required solvency margin for AORE was \$0.6 million at December 31, 2020. The excess of the ORE's assets over the aggregate of its liabilities was \$3.4 million. The minimum required solvency margin for those entities was \$125 thousand.

AOG must comply with the provisions of the Bermuda Companies Act regulating the payment of dividends and making of distributions from contributed surplus. A company is prohibited from declaring or paying a dividend, or making a distribution out of contributed surplus, if there are reasonable grounds for believing that: (a) the company is, or would after the payment, be unable to pay its liabilities as they become due or (b) the realizable value of the company's assets would thereby be less than its liabilities. The Board of Directors of AOG will evaluate any dividends in accordance with this test (and any other restrictions as discussed in Note 13 – Non-controlling interest) at the time such dividends are declared.

25. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 21, 2021, which is the date the financial statements were issued.