

# **American Overseas Group Limited**

**Consolidated Financial Statements  
For the Year Ended  
December 31, 2022**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
American Overseas Group Limited

### Opinion

We have audited the consolidated financial statements of American Overseas Group Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive loss, equity and retained deficit, and cash flows, for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a period of one year after the date that the financial statements are issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Required Supplementary Information**

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 is the responsibility of management and, 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.

*Deloitte Ltd.*

April 14, 2023

**AMERICAN OVERSEAS GROUP LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>Assets</b>		
Fixed-maturity securities held as available for sale, at fair value	\$ 97,645,890	\$ 102,677,918
Equity investments available for sale, at fair value	2,708,440	3,781,181
Cash and cash equivalents	32,211,928	31,907,879
Restricted cash	3,968,280	4,439,990
Accrued investment income	455,320	552,746
Premiums receivable	94,703,896	76,626,195
Deferred reinsurance premiums	132,602,466	108,904,149
Reinsurance balances receivable, net	248,233,879	223,982,379
Deferred policy acquisition costs	4,028,856	4,587,856
Intangible assets	4,800,000	4,800,000
Goodwill	33,050,000	33,050,000
Other assets	3,976,657	3,165,944
<b>Total assets</b>	<b>\$ 658,385,612</b>	<b>\$ 598,476,237</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
Losses and loss expense reserve	\$ 253,885,512	\$ 215,641,682
Deferred commission income	2,660,863	3,209,780
Unearned premiums	137,929,468	113,422,556
Ceded premium payable	88,116,788	82,058,553
Payable to general agents	5,468,993	7,121,308
Funds withheld	99,408,544	104,256,786
Accounts payable and accrued liabilities	16,499,812	12,421,943
Notes payable	18,020,907	16,520,907
Non-owned interest in VIE	300,000	300,000
Interest payable	463,770	450,770
Deferred tax liability	-	-
<b>Total liabilities</b>	<b>622,754,657</b>	<b>555,404,285</b>
<b>Shareholders' equity:</b>		
Common shares	4,697,900	4,697,900
Additional paid-in capital	189,178,987	189,178,987
Accumulated other comprehensive income	(4,240,403)	1,124,075
Retained deficit	(159,458,452)	(157,982,386)
<b>Total shareholders' equity</b>	<b>30,178,032</b>	<b>37,018,576</b>
Non-controlling interest in preferred shares in subsidiaries	5,452,923	6,053,376
<b>Total equity</b>	<b>35,630,955</b>	<b>43,071,952</b>
<b>Total liabilities and equity</b>	<b>\$ 658,385,612</b>	<b>\$ 598,476,237</b>

See Accompanying Notes to the Consolidated Financial Statements.

**AMERICAN OVERSEAS GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Net premiums earned	\$ 20,125,770	\$ 20,839,909
Fee income	11,693,111	11,248,474
Net investment income	263,108	439,496
Net realized gain	236,915	54,618
Other income	936,283	127,493
<b>Total revenues</b>	<u>33,255,187</u>	<u>32,709,990</u>
Net losses and loss adjustment expenses	14,506,031	14,392,158
Acquisition costs	6,342,239	7,129,729
General and administrative expenses	11,539,702	14,238,218
Interest expense	1,816,081	1,803,081
<b>Total expenses</b>	<u>34,204,053</u>	<u>37,563,186</u>
<b>Loss before income tax expense</b>	(948,866)	(4,853,196)
Income tax (expense)	-	(62,033)
<b>Loss before non-controlling interest</b>	<u>\$ (948,866)</u>	<u>\$ (4,915,229)</u>
<b>Net loss attributable to non controlling interest</b>		
Non-controlling interest - dividends on Class B preference shares of subsidiary	(527,200)	(585,253)
<b>Net loss attributable to common shareholders</b>	<u>\$ (1,476,066)</u>	<u>\$ (5,500,482)</u>
Net loss per common share:		
Basic	\$ (31.42)	\$ (117.08)
Diluted	\$ (31.42)	\$ (117.08)
Weighted-average number of common shares outstanding:		
Basic	46,979	46,979
Diluted	46,979	46,979

See Accompanying Notes to the Consolidated Financial Statements.

**AMERICAN OVERSEAS GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**December 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>Net loss before non-controlling interest</b>	\$ (948,866)	\$ (4,915,229)
<b>Other comprehensive loss</b>		
Change in unrealized fair value of investments	(5,127,563)	(783,623)
Reclassification adjustment for net realized investment gains included in income	(236,915)	(54,618)
Other comprehensive loss	(5,364,478)	(838,241)
<b>Comprehensive loss</b>	<b>\$ (6,313,344)</b>	<b>\$ (5,753,470)</b>

See Accompanying Notes to the Consolidated Financial Statements.

**AMERICAN OVERSEAS GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF EQUITY AND RETAINED DEFICIT**  
**December 31, 2022 and 2021**

	<u>Share capital</u>	<u>Noncontrolling Interest</u>	<u>Additional paid-in-capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained deficit</u>	<u>Total stockholders' equity</u>
Balance, December 31, 2020	4,697,900	6,053,376	189,151,024	1,962,316	(152,481,904)	49,382,712
Net loss	-	-	-	-	(4,915,229)	(4,915,229)
Share based compensation	-	-	27,963	-	-	27,963
Net change in unrealized gains and losses on investments	-	-	-	(838,241)	-	(838,241)
Dividends paid on preferred shares	-	-	-	-	(585,253)	(585,253)
Balance, December 31, 2021	4,697,900	6,053,376	189,178,987	1,124,075	(157,982,386)	43,071,952
Net income	-	-	-	-	(948,866)	(948,866)
Net change in unrealized gains and losses on investments	-	-	-	(5,364,478)	-	(5,364,478)
Repurchase class B preference shares	-	(600,453)	-	-	-	(600,453)
Dividends paid on preferred shares	-	-	-	-	(527,200)	(527,200)
Balance, December 31, 2022	<u>\$ 4,697,900</u>	<u>\$ 5,452,923</u>	<u>\$ 189,178,987</u>	<u>\$ (4,240,403)</u>	<u>\$ (159,458,452)</u>	<u>\$ 35,630,955</u>

See Accompanying Notes to the Consolidated Financial Statements

**AMERICAN OVERSEAS GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**December 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss for the year	\$ (948,866)	\$ (4,915,229)
<b>Adjustments to reconcile net (loss) to net cash used in operating activities:</b>		
Net realized gain on sale of investments	(46,462)	(54,618)
Net unrealized gain on equity investment	-	(37,625)
Deferred tax benefit	-	62,033
Net realized (gain) loss on sale of preferred shares	(190,453)	-
Interest expense	1,816,081	1,803,081
Share based compensation	-	27,963
Amortization of bond discount	113,332	182,990
<b>Changes in operating assets and liabilities:</b>		
Accrued investment income	97,425	(198,070)
Premiums receivable	(18,077,701)	(3,553,537)
Deferred reinsurance premiums	(23,698,317)	(7,061,141)
Reinsurance balance receivable, net	(24,251,500)	(29,068,056)
Deferred acquisition costs, net	10,082	(270,108)
Other assets	(810,713)	600,968
Unpaid losses and loss adjustment expenses	38,243,831	22,699,141
Unearned premiums	24,506,912	7,744,974
Ceded premium payable	6,058,235	10,069,477
Payable to general agents	(1,652,315)	2,789,931
Funds withheld	(131,959)	13,324,828
Deferred tax, net	-	(62,033)
Accounts payable and accrued liabilities	4,077,868	4,500,399
<b>Net cash provided by operating activities</b>	<b>5,115,480</b>	<b>18,585,368</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of available for sale securities	(60,949,179)	(33,900,173)
Proceeds from sales of fixed income investments	15,504,061	6,174,278
Proceeds from sales of equities	346,930	1,093,276
Proceeds from maturities of fixed income investments	41,055,328	21,980,934
<b>Net cash (used in) investing activities</b>	<b>(4,042,860)</b>	<b>(4,651,685)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long-term note payable	1,500,000	-
Interest paid	(1,803,081)	(1,803,081)
Payment on preferred shares	(410,000)	-
Dividends paid on preferred shares	(527,200)	(585,253)
<b>Net cash (used in) financing activities</b>	<b>(1,240,281)</b>	<b>(2,388,334)</b>



**AMERICAN OVERSEAS GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**December 31, 2022 and 2021**

	2022	2021
<b>Net (decrease) increase in cash, cash equivalents and restricted cash</b>	(167,661)	11,545,349
Cash and cash equivalents - Beginning of year	36,347,869	24,802,520
<b>Cash and cash equivalents - End of year</b>	<b>\$ 36,180,208</b>	<b>\$ 36,347,869</b>
 <b>Net taxes paid</b>	\$ -	\$ 35,574
<i>Reconciliation of cash and restricted cash and equivalents to Balance Sheet</i>		
Cash and cash equivalents, end of year	\$ 32,211,928	\$ 31,907,879
Restricted cash and cash equivalents, end of year	3,968,280	4,439,990
<b>Total cash and cash equivalents and restricted cash and equivalents, end of year</b>	<b>\$ 36,180,208</b>	<b>\$ 36,347,869</b>
 <b>Supplemental Disclosure of Non-Cash Transactions:</b>		
Transfer of securities from Trust Account being maintained for Funds Held	1,942,298	\$ 25,951,587

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.

On July 8<sup>th</sup> and 9<sup>th</sup> 2021, respectively, the Company liquidated and dissolved Reid Street Services, Ltd (“RSSL”) and Orpheus Group Ltd (“OGL”). The distribution of assets of RSSL was completed via a cash dividend to its parent, OGL. OGL then distributed its assets to its parent, AOG, via a cash dividend, and transferred its investments in Old American Capital Corporation (“OACC”) and RSSL to AOG for a debt left outstanding, which was subsequently settled via a dividend to AOG. There was no ultimate gain or loss related to the dissolution.

**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 16.

**(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. A portion of the unrealized appreciation or depreciation related to a reinsurer is included in funds held instead of accumulated other comprehensive income as the investments are pledged and all related investment movements, income, expenses, etc inure back to the reinsurer not the Company. 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) Guaranty fund asset**

Guaranty fund assets are included in other assets on the Consolidated Balance Sheet assessed to the Company from various states when the cost of defaulted insurance companies exceed the current fund balance. Depending on when the Company receives notice of an assessment, the Company will either accrue or pay the assessment and, if allowed by the assessing state, setup a corresponding guaranty fund asset for any premium tax credits allowed. This asset is reviewed annually for collectability and will be written off, if needed.

**(f) Revenue recognition**

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**

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 is 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) Accounting pronouncements not yet adopted**

***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. The Company implemented this ASU in the current year. None of the key changes impacted the Company therefore there was no impact to the balance sheet or income statement.

***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 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.

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

**3. PLEDGED ASSETS**

As of December 31, 2022 and 2021, there were investments of \$2.0 million and \$2.0 million, respectively, on deposit with state insurance department regulators related to a U.S. subsidiary.

As of December 31, 2022 and 2021, AORE had restricted cash of \$54 dollars and \$214 dollars, respectively, and investments at fair value of \$2.7 million and \$3.8 million, respectively, in trust accounts. These accounts include funds held in trust for the benefit of the holders of its Class B Preference Shares.

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. As of December 31, 2022, and 2021, the market value of the Class B Security Trust was \$2.7 million and \$3.8 million, respectively.

Orpheus Re Ltd. (“ORE”) held a Section 114 Trust in favor of OACM to support obligations from the reinsurance business assumed. As at December 31, 2022 and 2021 the assets value was \$4.8 million and \$3.8 million, respectively.

ORE held a Section 114 Trust in favor of OAIC to support obligations from the reinsurance business assumed. As at December 31, 2022 and 2021 the assets value was \$2.4 million and \$2.1 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, 2022 and 2021, were as follows:

	<b>Included in Accumulated Other Comprehensive Income ("AOCI")</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses <sup>(3)</sup></b>		<b>Estimated Fair Value</b>
			<b>Related to Changes in Estimated Fair Value</b>	<b>OTTI Included in Other Comprehensive Income <sup>(1)</sup></b>	
<b>2022</b>					
US Treasuries and government agencies <sup>(2)</sup>	\$ 28,092,459	\$ 976	\$ (706,885)	\$ -	\$ 27,386,550
Corporate debt securities	37,851,941	57,722	(1,417,773)	-	36,491,890
Municipal securities	30,684,133	868	(5,019,898)	-	25,665,103
Asset-backed securities	8,269,168	11,008	(177,829)	-	8,102,347
Total available for sale fixed-maturity investments	<u>\$ 104,897,701</u>	<u>\$ 70,574</u>	<u>\$(7,322,385)</u>	<u>\$ -</u>	<u>\$ 97,645,890</u>
Unrealized loss reclassified to funds held As it inures to a reinsurer	\$ -	\$ -	\$ 2,733,983	\$ -	\$ -
Equity securities available for sale	2,471,015	237,425	-	-	2,708,440
<b>Total investment portfolio</b>	<u><u>\$ 107,368,716</u></u>	<u><u>\$ 307,999</u></u>	<u><u>\$(4,588,402)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 100,354,330</u></u>



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

**4. INVESTMENTS (Cont'd)**

	<u>Included in Accumulated Other Comprehensive Income ("AOCI")</u>				
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>		<u>Estimated Fair Value</u>
<u>Related to Changes in Estimated Fair Value</u>			<u>OTTI Included in Other Comprehensive Income <sup>(1)</sup></u>		
<b>2021</b>					
US Treasuries and government agencies <sup>(2)</sup>	\$ 41,204,274	\$ 68,498	\$ (158,274)	\$ -	\$ 41,114,498
Corporate debt securities	18,263,414	307,255	(17,727)	-	18,552,942
Municipal securities	37,070,629	160,515	(321,980)	-	36,909,164
Asset-backed securities	6,040,384	63,539	(2,609)	-	6,101,314
Total available for sale fixed-maturity investments	<u>\$ 102,578,701</u>	<u>\$ 599,807</u>	<u>\$ (500,590)</u>	<u>\$ -</u>	<u>\$ 102,677,918</u>
Equity securities available for sale	2,756,323	1,024,858	-	-	3,781,181
<b>Total investment portfolio</b>	<u><u>\$ 105,335,024</u></u>	<u><u>\$ 1,624,665</u></u>	<u><u>\$ (500,590)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 106,459,099</u></u>

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

<sup>(2)</sup> Including US Government temporary liquidity guarantee program securities.

<sup>(3)</sup> \$2.8 million of the unrealized appreciation or depreciation related to a reinsurer is included in funds held instead of accumulated other comprehensive income as the investments are pledged and all related investment movements, income, expenses, etc inure back to the reinsurer not the Company. This is reflected in the OACM balance included in collateral (see FN 15).

The Company did not have an aggregate investment in a single entity in excess of 10% of total investments at December 31, 2022 and 2021. The Company had no material investments in securities guaranteed by third parties and had no direct investments in financial guarantors as at December 31, 2022 and 2021.

**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, 2022 and 2021, 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.

	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Less than one year	\$ 28,242,032	\$ 27,635,103	\$ 28,583,081	\$ 28,663,313
One through five years	40,801,858	38,746,781	41,136,010	41,296,992
Greater than five years	27,584,643	23,161,659	26,819,226	26,616,299
Mortgage-backed securities:				
RMBS	-	-	-	-
Asset-backed securities	8,269,168	8,102,347	6,040,384	6,101,314
<b>Total</b>	<b>\$ 104,897,701</b>	<b>\$ 97,645,890</b>	<b>\$ 102,578,701</b>	<b>\$ 102,677,918</b>

The investments that have unrealized loss positions as of December 31, 2022 and 2021, aggregated by investment category and the length of time they have been in a continuous unrealized loss position, are as follows:

	<b>Less than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
<b>2022:</b>						
<b>Fixed-maturity investments:</b>						
US Treasuries and government agencies	\$ 4,315,709	\$ (80,910)	\$ 20,479,096	\$ (625,975)	\$ 24,794,805	\$ (706,885)
Corporate debt securities	29,743,384	(1,255,249)	2,250,131	(162,524)	31,993,515	(1,417,773)
Municipal securities	7,932,257	(1,345,106)	16,231,977	(3,674,792)	24,164,234	(5,019,898)
Asset-backed securities	5,627,730	(126,563)	788,814	(51,266)	6,416,544	(177,829)
Total temporarily impaired securities	<u>\$ 47,619,080</u>	<u>\$ (2,807,828)</u>	<u>\$ 39,750,018</u>	<u>\$ (4,514,557)</u>	<u>\$ 87,369,098</u>	<u>\$ (7,322,385)</u>
<b>2021:</b>						
<b>Fixed-maturity investments:</b>						
US Treasuries and government agencies	\$ 7,494,594	\$ (36,399)	\$ -	\$ -	\$ 7,494,594	\$ (36,399)
Corporate debt securities	7,954,777	(20,336)	-	-	7,954,777	(20,336)
Municipal securities	40,296,853	(409,748)	1,258,242	(34,107)	41,555,095	(443,855)
Total temporarily impaired securities	<u>\$ 55,746,224</u>	<u>\$ (466,483)</u>	<u>\$ 1,258,242</u>	<u>\$ (34,107)</u>	<u>\$ 57,004,466</u>	<u>\$ (500,590)</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, 2022 and 2021. Ratings are assigned by Standard & Poor's or AM Best in instances where Standard & Poor's do not issue a rating.

<b>December 31, 2022</b>	<u>Amortized Cost</u>	<u>%</u>
AAA	\$ 12,631,639	12.0%
AA	48,304,057	46.1%
A	40,162,747	38.3%
BBB and below	3,799,258	3.6%
	<u>\$ 104,897,701</u>	<u>100%</u>

<b>December 31, 2021</b>	<u>Amortized Cost</u>	<u>%</u>
AAA	\$ 11,083,664	10.8%
AA	63,598,266	62.0%
A	24,454,196	23.8%
BBB and below	3,442,575	3.4%
	<u>\$ 102,578,701</u>	<u>100%</u>

As of December 31, 2022, 204 out of 223 fixed maturity securities were in unrealized loss positions compared to 69 out of 173 as of December 31, 2021. As at December 31, 2022, the Company's unrealized loss position for fixed maturity securities was \$7.3 million compared to \$0.5 million at December 31, 2021. 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. Fifty-nine of the securities have been in an unrealized loss position for 12 months or more as of December 31, 2022 and there were two securities in an unrealized loss position for 12 months or more as of December 31, 2021.

During the years ended December 31, 2022 and 2021, 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 2022 and 2021 were \$56.6 million and \$28.2 million, respectively. Gross gains of \$16,107 dollars and \$0.1 million in 2022 and 2021, respectively, and gross losses of \$31,268 dollars and \$3,154 dollars in 2022 and 2021, respectively, were realized on those sales. Proceeds from the sale of equity securities were \$0.3 million and \$1.1 million in 2022 and 2021, respectively. Gross gains of \$61,623 dollars and nil in 2022 and 2021, respectively, and gross losses of nil and \$10,893 in 2022 and 2021, respectively, were realized on equity sales.

**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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest from fixed-maturity securities (1)	\$ 1,776,966	\$ 1,601,233
Interest from cash equivalents	736	669
Dividend Income	-	55,704
Amortization	6	1,532
Investment expense (1)	<u>(1,514,600)</u>	<u>(1,219,642)</u>
Net Investment income	<u>\$ 263,108</u>	<u>\$ 439,496</u>

(1) Interest from fixed-maturity securities and Investment expense both include offsetting amounts of credit for funds held in the amount of \$1.3 million and \$0.9 million for 2022 and 2021, respectively.

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

**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, 2022 and 2021. 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>2022</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>	
<b>Financial Assets:</b>				
U.S. treasuries and government agencies	\$ 27,386,550	\$ 11,154,619	\$ 16,231,931	\$ -
Corporate debt securities	36,491,890	-	36,491,890	-
Municipal securities	25,665,103	-	25,665,103	-
Asset-back securities	8,102,347	-	8,102,347	-
Investments available for sale fixed maturity investments	97,645,890	11,154,619	86,491,271	-
Cash and Cash Equivalents	32,211,928	32,211,928	-	-
Restricted Cash	3,968,280	3,968,280	-	-

**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>2021</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>
<b>Financial Assets:</b>				
U.S. treasuries and government agencies	\$ 41,114,498	\$ 19,427,443	\$ 21,687,055	\$ -
Corporate debt securities	18,552,942	-	18,552,942	-
Municipal securities	36,909,164	-	36,909,164	-
Asset-back securities	<u>6,101,314</u>	<u>-</u>	<u>6,101,314</u>	<u>-</u>
Investments available for sale fixed maturity investments	102,677,918	19,427,443	83,250,475	-
Cash and Cash Equivalents	31,907,879	31,907,879	-	-
Restricted Cash	4,439,990	4,439,990	-	-

**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, 2022 and 2021, 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, 2022 and 2021. The Company holds an investment in a capital trust, classified as a corporate debt 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.

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

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

**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.

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

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

**6. GUARANTY FUND ASSET**

During the year, \$1.3 million was paid by the Company's subsidiaries for guaranty fund assessments related to 2021 and 2022. Liabilities of nil was recorded related to amounts that the Company received notice of being payable, but not yet paid. The Company has recorded \$1.6 million in Other Assets related to credits that can be taken against future premium tax assessments.

**7. LOSSES AND LOSS EXPENSE RESERVE**

The Company's loss and loss expense reserve as of December 31, 2022, represented case basis loss reserves and incurred but not reported 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, 2022 and 2021 is presented in the following table:

	<b>2022</b>	<b>2021</b>
Losses and loss expense reserve		
Balance - Beginning of year	\$ 215,641,682	\$ 192,942,541
Less: reinsurance recoverable	(207,622,579)	(187,794,842)
Net balance - Beginning of year	<u>8,019,103</u>	<u>5,147,699</u>
Incurred related to:		
Current year	14,613,642	14,442,442
Prior years	(44,281)	(123,467)
Premium deficiency reserve	(63,330)	73,183
Total incurred	<u>14,506,031</u>	<u>14,392,158</u>
Net losses paid related to:		
Current year	(6,960,925)	(7,705,870)
Prior years	(6,071,707)	(3,814,884)
Total Paid	<u>(13,032,632)</u>	<u>(11,520,754)</u>
Net balance - End of year	9,492,502	8,019,103
Add: reinsurance recoverable	244,393,010	207,622,579
<b>Balance - End of year</b>	<u><u>\$ 253,885,512</u></u>	<u><u>\$ 215,641,682</u></u>

For the year ended December 31, 2022, the Company incurred loss and LAE of \$14.5 million (2021: \$14.4 million). Incurred losses and LAE related to the current year are \$14.6 million (2021: \$14.4 million).



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

**7. LOSSES AND LOSS EXPENSE RESERVE (cont'd)**

The following presents information about incurred and paid claims development for the short term duration contracts as of December 31, 2022, net of reinsurance. The information about incurred and paid claims development for the 2013 to 2022 years, and the average annual percentage payout of incurred claims by age as of December 31, 2022, is presented as required supplementary information. 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.

<b>Incurred loss and allocated loss adjustment expenses, net of reinsurance For the Years Ended December 31,</b>											<b>Total of incurred- but-not- reported liabilities plus expected</b>	
<b>Accident Year</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>		
<b>(dollars in thousands)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>		
2013	\$ 34,799	\$ 38,858	\$ 38,245	\$ 38,013	\$ 38,057	\$ 37,913	\$ 37,879	\$ 37,880	\$ 37,880	\$ 37,880	\$ 1	
2014	-	34,792	35,215	34,577	34,694	34,530	34,492	34,542	34,542	34,542	-	
2015	-	-	5,182	5,076	5,332	5,173	5,206	5,200	5,198	5,199	6	
2016	-	-	-	3,072	3,388	3,223	3,137	3,107	3,105	3,099	3	
2017	-	-	-	-	3,125	2,852	2,699	2,631	2,629	2,631	5	
2018	-	-	-	-	-	1,966	1,858	1,804	1,805	1,806	7	
2019	-	-	-	-	-	-	4,070	4,164	4,122	4,095	44	
2020							-	8,963	8,888	8,785	219	
2021								-	14,441	14,528	1,054	
2022										14,614	4,080	
							<u>\$ 84,596</u>	<u>\$ 85,657</u>	<u>\$ 89,341</u>	<u>\$ 98,291</u>	<u>\$ 112,610</u>	<u>\$ 127,179</u>

<b>Cumulative paid claims and allocated loss adjustment expenses, net of reinsurance For the Years Ended December 31,</b>												
<b>Accident Year</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>		
<b>(dollars in thousands)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>		
2013	\$ 15,872	\$ 30,676	\$ 35,199	\$ 37,208	\$ 37,919	\$ 38,137	\$ 38,196	\$ 38,270	\$ 38,281	\$ 38,290		
2014	-	21,080	28,728	32,052	33,420	33,927	34,007	34,054	34,121	34,126		
2015	-	-	3,392	4,708	5,332	5,384	5,467	5,467	5,465	5,465		
2016	-	-	-	1,980	2,794	2,952	2,978	2,993	2,993	2,993		
2017	-	-	-	-	1,810	2,571	2,694	2,714	2,721	2,730		
2018	-	-	-	-	-	1,071	1,409	1,444	1,459	1,464		
2019	-	-	-	-	-	-	2,034	3,300	3,691	3,804		
2020								4,932	8,258	8,962		
2021								-	7,706	12,933		
2022										6,961		
							<u>\$ 81,275</u>	<u>\$ 84,042</u>	<u>\$ 86,785</u>	<u>\$ 93,174</u>	<u>\$ 104,695</u>	<u>\$ 117,728</u>

All outstanding liabilities before 2013, net of reinsurance 72      21      14      -      14      14

Liabilities for claims and claims adj expense, net of reinsurance \$ 3,393    \$ 1,636    \$ 2,570    \$ 5,117    \$ 7,929    \$ 9,466

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

<b>Years</b>	<b><u>Year 1</u></b>	<b><u>Year 2</u></b>	<b><u>Year 3</u></b>	<b><u>Year 4</u></b>	<b><u>Year 5</u></b>
	57%	29%	8%	2%	1%

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

**7. 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**

	<b><u>2022</u></b>
<b><u>Net Outstanding Liabilities</u></b>	
<b>(dollars in thousands)</b>	
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	\$ 9,493
Total reinsurance recoverable on unpaid claims	<u>244,393</u>
	<u>253,886</u>
Total gross liability for unpaid claims and claims adjustment expense	<u><u>\$ 253,886</u></u>

**8. 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 two operating segments: property/casualty insurance/reinsurance and corporate/other. All product lines fall within these classifications. The property/casualty segment provides insurance and reinsurance related to US short-tail personal lines.

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

**8. SEGMENT INFORMATION (cont'd)**

The following tables provide a summary of the segment results.

	<b>December 31, 2022</b>		
<b>(dollars in thousands)</b>	<b>Property/Casualty</b>	<b>Corporate</b>	<b>Total</b>
Net premiums earned	\$ 20,126	\$ -	\$ 20,126
Losses and loss adjustment expenses	(14,506)	-	(14,506)
Acquisition expenses	(6,342)	-	(6,342)
Underwriting loss	(722)	-	(722)
Fee income	11,693	-	11,693
Net investment expense	-	263	263
Other income	804	132	936
Net realized gain on sales of investments	-	237	237
Operating expenses	(10,610)	(930)	(11,540)
Interest expense	-	(1,816)	(1,816)
Income tax	-	-	-
Net gain (loss) before non controlling interest	\$ 1,165	\$ (2,114)	\$ (949)

	<b>December 31, 2021</b>		
<b>(dollars in thousands)</b>	<b>Property/Casualty</b>	<b>Corporate</b>	<b>Total</b>
Net premiums earned	\$ 20,840	\$ -	\$ 20,840
Losses and loss adjustment expenses	(14,392)	-	(14,392)
Acquisition expenses	(7,130)	-	(7,130)
Underwriting loss	(682)	-	(682)
Fee income	11,248	-	11,248
Net investment income	-	440	440
Other income	-	127	127
Net realized gain on sales of investments	-	55	55
Operating expenses	(13,010)	(1,228)	(14,238)
Interest expense	-	(1,803)	(1,803)
Income tax	(62)	-	(62)
Net (loss) before non controlling interest	\$ (2,506)	\$ (2,409)	\$ (4,915)

**9. 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.

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

**10. LEASES**

The Company has 3 operating leases comprised of two vehicles and office space. The vehicles have remaining lease terms of 1.25 and 1.75 years with fixed lease payments. The office space has a remaining lease term of 5.67 years, 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, 2022</u>
Operating lease cost	\$ 331,062
Total lease cost	\$ 331,062

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	\$ 351,866

Supplemental balance sheet information related to leases was as follows:

<i>Operating leases</i>	
Operating lease right-of-use assets	\$ 1,385,486
Current operating lease liabilities	\$ 1,599,536

Other information:

Weight average remaining lease term - operating	5.52
Weight average discount rate - operating	6.09%

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

**10. LEASES (cont'd)**

	<u>December 31, 2021</u>
Operating lease cost	\$ 344,714
Total lease cost	\$ 344,714

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	\$ 367,484

Supplemental balance sheet information related to leases was as follows:

<i>Operating leases</i>	
Operating lease right-of-use assets	\$ 1,663,740
Current operating lease liabilities	\$ 1,898,595

Other information:

Weight average remaining lease term - operating	6.36
Weight average discount rate - operating	6.21%

Future minimum lease payments as of December 31, 2022 are as follows:

2023	\$ 352,315
2024	337,488
2025	321,410
2026	325,676
2027	329,943
Thereafter	221,858
Total	\$ 1,888,690
Less: Interest	(289,153)
Lease Liability	\$ 1,599,537

As of December 31, 2022, the Company has no additional operating leases that have not yet commenced.

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

**11. 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.

On June 24, 2022, AORE repurchased 37 of its Class B Preference Shares at a liquidation value of \$3.7 million.

Following the settlement of previous repurchases, 336.01 and 373.01 shares of Class B Preference Shares remained outstanding at December 31, 2022 and 2021, respectively. The remaining value of the Class B Preference Shares of \$5.5 million and \$6.1 million is included as a "Noncontrolling Interest" in the Company's Consolidated Balance Sheets as of December 31, 2022 and 2021, respectively.

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 Trust. The market value of the Class B Security Trust is \$2.7 million and \$3.8 million as of December 31, 2022 and 2021, respectively.

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 \$0.5 million and \$0.6 million paid to the Class B preference shareholders in 2022 and 2021, respectively.

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

**12. SHARE CAPITAL**

As at December 31, 2022 and 2021, authorized common share capital was \$9,000,000. As at December 31, 2022 and 2021, 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, 2022 and 2021:

	Outstanding share capital	Outstanding Shares	Treasury Shares	Issued Shares	Unissued Shares
<b>As at December 31, 2020</b>	<b>\$ 4,617,900</b>	<b>46,979</b>	<b>42</b>	<b>47,021</b>	<b>42,979</b>
Issued restricted stock awards during the year	-	-	-	-	-
<b>As at December 31, 2021</b>	<b>\$ 4,617,900</b>	<b>46,979</b>	<b>42</b>	<b>47,021</b>	<b>42,979</b>
Issued restricted stock awards during the year	-	-	-	-	-
<b>As at December 31, 2022</b>	<b>\$ 4,617,900</b>	<b>46,979</b>	<b>42</b>	<b>47,021</b>	<b>42,979</b>

**13. 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, 2022, outstanding awards under the AOG Plan consisting of 1,275 share options and nil 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 2022 and 2021, there were no stock options granted. Restricted share units vest in equal annual installments over a four-year period.

***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, 2022, the weighted average grant date fair value for options issued subsequent to January 1, 2006 was \$799.71. The Company expensed nil and \$21,874 thousand in compensation expense related to the stock options for

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

**13. SHARE BASED COMPENSATION (cont'd)**

the years ended December 31, 2022 and 2021, respectively. As at December 31, 2022, there was nil of unrecognized compensation expense related to the stock options granted subsequent to January 1, 2006. For both the twelve-month periods ended December 31, 2022 and 2021, 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.

The following tables summarize the stock option activity for the years ended December 31, 2022 and 2021:

**Stock option activity**

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Aggregate Intrinsic Value <sup>(1)</sup></b>
<b>Year ended December 31, 2022</b>				
<b>Options</b>				
Outstanding - beginning of year	1,410	\$ 805.90		
Granted	-	-		
Expired	(135)	861.67		
Forfeited	-	-		
Outstanding - end of year	<u>1,275</u>	800.00	3.38	\$ -
Exercisable - end of year	1,275	\$ 800.00	3.38	\$ -
	<b>Number of Shares</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Aggregate Intrinsic Value <sup>(1)</sup></b>
<b>Year ended December 31, 2021</b>				
<b>Options</b>				
Outstanding - beginning of year	1,471	\$ 832.01		
Granted	-	-		
Expired	(61)	1,435.41		
Forfeited	-	-		
Outstanding - end of year	<u>1,410</u>	805.90	3.99	\$ -
Exercisable - end of year	1,410	\$ 805.90	3.99	\$ -

- 1) The aggregate intrinsic value was calculated based on the market value of \$202.00 and \$186.00 as at December 31, 2022 and 2021, 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)**

**13. SHARE BASED COMPENSATION (cont'd)**

*Restricted share units*

The following table summarizes the restricted share unit activity for the years ended December 31, 2022 and 2021:

**Restricted Share Units**

	<b><u>Number of share units</u></b>	<b><u>Weighted average grant date fair value per share</u></b>
<b>Year ended December 31, 2022</b>		
<b>Restricted Share Units</b>		
Non-vested - beginning and end of year	-	\$ -
	<b><u>Number of share units</u></b>	<b><u>Weighted average grant date fair value per share</u></b>
<b>Year ended December 31, 2021</b>		
<b>Restricted Share Units</b>		
Non-vested - beginning of year	87	\$ 700.00
Granted	-	-
Vested	(87)	700.00
Forfeited	-	-
Non-vested - End of year	<u>-</u>	<u>\$ -</u>

The Company expensed nil and \$17,953 thousand in compensation expense related to the restricted share units for the years ended December 31, 2022 and 2021 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, 2022, 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)**

**14. 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, 2022 and 2021, there were 1,275 and 1,410, 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Net loss available to common shareholders	\$ (1,476,066)	\$ (5,500,482)
Basic weighted-average shares	46,979	46,979
Effect of stock options	-	-
Effect of restricted share units	-	-
Diluted weighted-average shares	46,979	46,979
Basic loss earnings per share	\$ (31.42)	\$ (117.08)
Diluted loss earnings per share	\$ (31.42)	\$ (117.08)

**15. RISKS AND UNCERTAINTIES**

The Company evaluates its financial condition and capital adequacy on an ongoing basis 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 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, 2022, AOG has \$0.2 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)**

**15. 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. At December 31, 2022, the subsidiaries held \$216.5 million of collateral compared to \$203.6 million of balances at December 31, 2021 and such amounts are included in reinsurance balances received net on the consolidated balance sheet.

At December 31, 2022, the Company had \$136.5 million of cash and investments of which approximately \$120.3 million was held in trust for the benefit of our ceding companies and others, leaving \$16.2 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)**

**16. 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, 2022 and December 31, 2021.

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, 2022 and 2021 with appropriate eliminations being made for intercompany balances:

	2022	2021
<b>ASSETS:</b>		
Cash	\$ 27,749,948	\$ 26,777,976
Investments	74,738,722	71,736,610
Premiums receivable	73,335,028	51,678,066
Reinsurance balances receivable	222,753,431	184,592,655
Deferred reinsurance premiums	118,207,559	90,491,747
Other assets	987,285	902,983
Total assets	\$ 517,771,973	\$ 426,180,037
 <b>LIABILITIES:</b>		
Unpaid losses and loss adjustment expenses	\$ 213,273,175	\$ 174,302,463
Unearned premium	118,207,559	90,491,747
Ceded premium payable	81,206,121	60,127,559
Payable to general agents	360,709	1,112,249
Funds withheld	87,447,783	87,449,925
Accounts payable and accrued expenses	11,665,490	6,968,613
Due to parent and affiliates	670,349	433,816
Total liabilities	\$ 512,831,186	\$ 420,886,372
 <b>EQUITY:</b>		
Policyholders' surplus	\$ 300,000	\$ 300,000
Surplus debenture	4,700,000	4,700,000
Accumulated other comprehensive loss	(59,213)	293,665
Total equity	\$ 4,940,787	\$ 5,293,665
Total Liabilities and Equity	\$ 517,771,973	\$ 426,180,037

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

**17. 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 2022, five of these managing general agencies produced approximately 72.5% of OACM's gross premium writings and of the 72.0% Company's gross written premiums plus policy fees. In 2022, one managing general agent produced approximately 71.2% of OA Indemnity's gross premium writings and 71.5% of the Company's gross written premiums plus policy fees.

**18. 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, 2022.

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, 2022.

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, 2022.

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

**18. GOODWILL AND INTANGIBLE ASSETS (cont'd)**

The gross and net carrying amounts of intangible assets by major category as of December 31, 2022 and 2021 are as follows:

	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
As of December 31, 2022			
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, 2021			
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 were amortized to align with the expected economic benefit of the income associated with those relationships, through 2015. Internally developed software was 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.

**19. NOTES PAYABLE**

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 2022 and 2021, respectively, on the 2015 OACC Notes. On December 6, 2022 four new notes were issued as part of the 2015 OACC Notes totaling \$1.5 million. As of December 31, 2022, \$0.3 million in interest was accrued and unpaid on the \$12.0 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. During 2021, the AOG notes were transferred to OACC (now the “2021 OACC Notes”) as a dividend in kind. The terms on the 2021 OACC Notes remain the same. Interest on the 2021 OACC Notes is payable in quarterly installments at a fixed rate of 9.0% per annum. Principal repayments of nil were made in 2022 and 2021, respectively, on the 2021 OACC Notes. As of December 31, 2022, \$0.1 million in interest was accrued and unpaid on the remaining balance of \$6.0 million on the 2021 OACC Notes.

Directors and family members of AOG and its subsidiaries held notes payable in the aggregate principal amount of approximately \$10.2 million and \$8.6 million at December 31, 2022 and 2021, respectively.

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

**19. NOTES PAYABLE (cont'd)**

On January 27, 2020, AORE entered into a \$4.0 million promissory note with AOG that has a 6% interest rate. On October 19, 2020, AORE entered into a \$4.0 million promissory note with AOG that has a 6% interest rate.

The January 27, 2020, promissory has been fully repaid. Principal payments on the promissory note were as follows:

<u>Date</u>	<u>Payment</u>
December 17, 2020	\$ 500,000
June 15, 2021	900,000
September 24, 2021	600,000
October 28, 2021	400,000
March 28, 2022	650,000
June 22, 2022	450,000
Sept 28, 2022	500,000
	<hr/>
	\$ 4,000,000

On December 12, 2022 a \$1.8 million principal payment was made on the October 19, 2020 promissory note. As of December 31, 2022, the balance of the remaining note is \$2.2 million and as of December 31, 2021, the balance of the two promissory notes was \$5.6 million and nil in accrued interest each year.

**20. 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 became tax resident in the U.K., although will remain a Bermuda-based company. As the company is not incorporated in the U.K., it intends to manage its affairs in such a way as to establish and maintain status as tax resident in the U.K. As an U.K. tax resident company, AOG is required to file a corporation tax return with His Majesty's Revenue & Customs ("HMRC"). AOG 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 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 from its 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.

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

**20. TAXATION (cont'd)**

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 expired on June 30, 2021. Because the Company only underwrites related party business, they are now categorized as Class 1.

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.

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

	2022	2021
Current tax expense	\$ -	\$ 26,459
Deferred tax expense	-	35,574
Net income tax expense	\$ -	\$ 62,033



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

**20. TAXATION (cont'd)**

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 2022 and 2021.

	2022	2021
Net (loss) before income tax	\$ (948,866)	\$ (4,853,196)
Adjustment for non-taxable entities	<u>4,864,825</u>	<u>(8,189,829)</u>
Taxable income (loss) before income tax expense	\$ 3,915,959	\$ (13,043,025)
Expected tax benefit at statutory rates in taxable jurisdictions	822,351	(2,739,035)
Increases (reductions) in taxes resulting from:		
Exclusion of profit from VIE not included in consolidated		
Valuation allowance	(874,925)	(280,184)
Other	<u>52,574</u>	<u>3,045,678</u>
Income tax expense	<u>\$ -</u>	<u>\$ 26,459</u>
Effective tax rate	<u>0%</u>	<u>0%</u>

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, 2022 and 2021 were as follows:

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

**20. TAXATION (cont'd)**

	2022	2021
Deferred tax assets:		
Net operating loss carryforward	\$ 5,380,299	\$ 5,569,435
Unearned premium reserves	41,416	48,155
Discounted unpaid losses and loss adjustment expenses	<u>18,827</u>	<u>19,322</u>
 Total deferred tax assets	 <u>5,440,542</u>	 <u>5,636,912</u>
Deferred tax liabilities:		
Deferred acquisition costs	91,301	116,946
Intangible Assets with permanent differences	<u>4,962,475</u>	<u>4,258,275</u>
	5,053,776	4,375,221
 Deferred tax assets, net, before valuation allowance	 386,766	 1,261,691
Valuation allowance	<u>(386,766)</u>	<u>(1,261,691)</u>
 Deferred tax liabilities, net	 <u>\$ -</u>	 <u>\$ -</u>

As of December 31, 2022, the Company had net operating loss carry forwards of \$25,620,471 the expiration of which is as follows:

	December 31, 2022
2032	2,644,628
2033	9,215,338
2034	8,016,412
2035	-
2036	665,042
2037	962,836
2038	-
2039	775,003
2040	328,610
2041 est	3,012,602
	\$ 25,620,471

As of December 31, 2022 and 2021, 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)**

**21. 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 2022. These five reinsurers account for approximately 72% of the total net recoverable from reinsurers, and 68% for 2021. 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, 2022, 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 2022 and 2021, OACM obtained collateral totaling \$183.0 million and \$171.2 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 \$116.0 million as of December 31, 2022 as compared to \$83.1 million for 2021.

With OA Indemnity's reinsurance programs, a concentration of credit risk exists with ten reinsurers that have net balances due in excess of 5% of OA Indemnity's total receivable balances in 2022. These ten reinsurers account for approximately 90% of the total net recoverable from reinsurers, and 77% for 2021. During 2022, OA Indemnity obtained collateral and letters of credit totaling \$33.5 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 \$22.0 million as of December 31, 2022 as compared to \$17.4 million as of December 31, 2021.

**22. 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, 2022, OA Indemnity had statutory capital and surplus of \$11.7 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, 2022.

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

**22. STATUTORY REQUIREMENTS (cont'd)**

As a Class 1 insurance Company under the Insurance Act as amended in 2018, 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, 2022 was \$1.0 million. The minimum required solvency margin for AORE was \$1.7 million at December 31, 2022. AORE has reported a deficit position as at 31 December 2022 and has not complied with the minimum solvency requirements for insurers. Management and the Board of Directors intends to consult with the regulator and are assessing various options to remedy the deficiency but believe that the Company has sufficient support to continue as a going concern and to honor any liabilities that should arise. The excess of the ORE's assets over the aggregate of its liabilities was \$1.5 million. The minimum required solvency margin for those entities was \$125 thousand.

On November 29, 2019, the Barbados government repealed the Business Companies (Economic Substance) Act, 2018-41, and replaced it with the Companies (Economic Substance) Act, 2019-43 ("the Barbados Act"). Under the Barbados Act, all resident companies/societies (other than those being grandfathered) must comply with the economic substance rules for fiscal periods commencing on or after January 1, 2020. The Barbados Act will require a resident entity which derives income from the carrying on of a relevant activity to satisfy the economic substance test in relation to that relevant activity, and will require the entity to file an economic substance declaration annually. If the Director of International Business determines that a resident entity has failed to meet the economic substance test for a fiscal period, the Director may impose a penalty. AORE and ORE must comply with the economic substance rules for fiscal periods commencing on or after January 1, 2021 as it has been grandfathered as an entity under the Exempt Insurance Act. AORE will file a declaration of compliance in accordance with the Barbados Economic Substance Laws for the period of January 1, 2022 through December 31, 2022 no later than December 31, 2023. ORE is not considered a resident company under the Barbados Act, as its taxing authority is the United States of America, and as such, the Company is not expected to be required to file an economic substance declaration.

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 11 – Non-controlling interest) at the time such dividends are declared.

**23. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through April 14, 2023, which is the date the financial statements were issued.