AMERICAN OVERSEAS GROUP LIMITED

2016 ANNUAL REPORT

American Overseas Group Limited

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Dear Shareholders,

I am pleased to report the results of American Overseas Group Limited (the "Company," "we" or "us") for the year ending December 31, 2016. As discussed in previous years, we manage insurance and reinsurance companies that are comprised of two general categories: (1) the active U.S. based insurance companies, which specialize in non-standard auto insurance, along with their affiliated off-shore reinsurers in Barbados; and, (2) the legacy financial guaranty reinsurance company, based in Barbados, which has been in voluntary run-off since the financial crisis in 2009.

The U.S. based non-standard auto business has continued to generate moderate premium growth during 2016. Our Texas-only company, Old American County Mutual Fire Insurance Company (OACM), which holds a unique "county mutual" license, operates through multiple MGA partners in the state. OACM continues to see steady growth, as it has over the past few years, both due to a long stretch of rate increases as well as a growing population in the customer base it serves. We expect both of these trends to continue at least into the near future. Outside of Texas at Old American Indemnity Company (OAIC), we are continuing to expand our footprint in the same non-standard auto insurance niche, essentially following the same fee-based business model, with the slight nuance of retaining a small portion of the underwriting risk. However, in contrast to the Texas-only county mutual license, our licenses outside of Texas are traditional property/casualty licenses, which effectively limit us to a single MGA partner in each state. We are seeking qualified MGAs in states outside of Texas that exhibit viable characteristics in the non-standard auto insurance space.

We continue to manage the run-off of the legacy financial guaranty reinsurance business in American Overseas Reinsurance Company Ltd. (AORE). In last year's letter, I mentioned the significant risk exposures to AORE arising from Puerto Rico insured bonds. As of December 31, 2016, our total Puerto Rico par outstanding was $140.2 million, with the two largest exposures consisting of Puerto Rico Highway & Transportation Authority (PRHTA) at $91.5 million and Municipal Finance Authority (MFA) at $44.8 million. Overall, the economic and political situation in Puerto Rico has continued to deteriorate significantly throughout 2016 and into 2017. There have been several important developments since the end of 2016. While the impact of these developments is not included in the 2016 financial results, these developments are referenced in the financial statements as a subsequent event, and I feel I would be remiss if I did not address them here.

To provide appropriate context before discussing the recent significant developments, here is a high-level summary of the financial crisis in Puerto Rico. In 2000, Puerto Rico's bond debt was $24 billion and unfunded pension liabilities were $7 billion. As of year-end 2016, those numbers have grown to $72 billion in bond debt and $49 billion in unfunded pension liabilities. Several factors contributed to the sharp increase in borrowing and the resulting severe financial crisis. The most obvious factor is that successive governments in Puerto Rico decided to borrow even more money to meet operating expenses, including servicing existing debt, instead of working to control spending and to meet its existing obligations. Additional borrowing to meet current needs is never a prudent strategy. Adding further to the incentive to borrow was the "triple tax exempt" status conferred upon most Puerto Rico bonds (exempt from federal, state and local income taxes throughout the U.S.), which made them attractive to investors and easy to sell. In the wake of the global economic crisis, Puerto Rico's economy has been failing, causing the population to shrink as many fled to the U.S. seeking better work opportunities and living conditions. Inefficient government spending and borrowing, combined with the burden of a shrinking tax base and a higher percentage of low income families in need of financial aid, all contributed to the current distress. A long-standing government medical program, created in Puerto Rico in 1994 without a way to pay for it, has been further impaired recently by cutbacks in U.S. federal subsidies.

Another significant challenge faced by the Commonwealth of Puerto Rico is the complexity of its debt structure. There are 18 different government agencies which issued different securities with different collateral, sometimes with conflicting and competing revenue sources to service the debt. There have been recent disputes surrounding Commonwealth "clawbacks" of revenue sources intended as collateral to service specific bonds that the Commonwealth has claimed to service other unsecured debt instead.

Against this complex and troubled backdrop, the U.S. Congress passed the PROMESA Act in June 2016, to deal with the worsening debt crisis in Puerto Rico. An important aspect of this legislation was the formation of an oversight board of politically-appointed individuals, albeit with certain meaningful qualifications, to attempt to work its way through the growing financial crisis in Puerto Rico, and essentially do what Puerto Rico itself had been unable to accomplish. Another important aspect of this legislation was the promulgation of "Title III" court proceedings, a quasi-bankruptcy process without legal precedent, since U.S. states and territories are not allowed to declare bankruptcy under U.S. bankruptcy laws.

In late 2016, a new governor was elected in Puerto Rico, bringing high hopes that his education and background would provide much-needed order and sound judgment to the political scene. Unfortunately, both the financial oversight board and Governor Ricardo Rossello failed at crafting any meaningful solution to the financial crisis. It seemed that the continued polarization caused by political posturing prevented any rational course of action to emerge. There was a complete failure of common sense, let alone any adherence to legal responsibilities.

As of May 2017, the financial oversight board initiated Title III proceedings. The matters have been assigned to Judge Laura Taylor Swain, a U.S. federal bankruptcy judge from the Southern District of New York. It will undoubtedly be a longer process than everyone would like. It is projected to take at least 18 months, maybe much longer. Obviously, the situation is complicated and challenging, and there is no directly applicable roadmap to follow. AORE will remain in limbo in terms of crystalizing its Puerto Rico obligations until there is a decision, or series of decisions, in this matter. In the meantime, there is no question that bond interest and principal payments will need to be paid, and without adequate funds and/or the willingness to use them for the designated purpose, the financial guarantors will be required to meet those obligations.

In light of the current status of the run-off book of business at AORE, we made the very difficult decision during 2016 to reduce overhead in our Bermuda-based management office. We downsized head count and real estate and restructured the management services functions to include unaffiliated service providers in Bermuda and Barbados. These actions appropriately reduced costs. We are deeply grateful to our former employees for their dedicated service over the past several years.

In 2017, we will seek to further enhance shareholder value by continuing the profitable growth of our fee-based specialty insurance business, ensuring that expenses are in line with current revenues and business needs, managing our capital requirements and further reducing our financial guaranty risk exposures whenever possible at economically beneficial terms. As part of our ongoing capital management efforts, the Company will continue to redirect excess capital within the group to debt reduction unless other compelling opportunities present themselves.

Sincerely,

Debra J. Roberts

Debra J. Roberts
President and Chief Executive Officer

Note on Forward-Looking Statements

Various statements contained in this Annual Report, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include projections and estimates concerning the timing and success of specific projects and the Company's future production, revenues, income and capital spending. The Company's forward-looking statements are generally, but not always, accompanied by words such as "estimate," "believe," "expect," "anticipate," "would," "will," "may," "plan," "goal," "target," "could," "continue," "intend" or other words that convey the uncertainty of future events or outcomes. While the Company's management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond the Company's control.

Examples of forward-looking statements include the plans and objectives of management for future operations, including those relating to future growth of our business, and are based on current expectations that involve assumptions that are difficult or impossible to predict accurately and many of which are beyond our control. There can be no assurance that actual developments will be those anticipated by us, and therefore you are cautioned not to place undue reliance on such statements. Actual results may differ materially from those expressed or implied in these statements as a result of significant risks and uncertainties, including, but not limited to, our ability to recover from our capacity providers, the cost and availability of reinsurance coverage, challenges to our use of issuing carrier or fronting arrangements by regulators or changes in state or federal insurance or other statutes or regulations, our dependence on a limited number of business partners, our ability to compete effectively, our ability to continue to compete without a financial strength rating of our insurance subsidiaries, our ability to accurately underwrite and price our products and to maintain and establish accurate loss reserves, changes in interest rates or other changes in the financial markets, the effects of emerging claim and coverage issues, changes in the demand for our products, the effect of general economic conditions, breaches in data security or other disruptions with our technology, and changes in pricing or other competitive environments.

Forward-looking statements involve inherent risks and uncertainties and the Company cautions readers that various factors could cause its actual financial and operational results to differ materially from those indicated by forward-looking statements made from time-to-time in news releases, reports, proxy statements, registration statements, and other written communications, as well as oral statements made from time-to-time by representatives of the Company. Those and other important factors, including those contained in this Annual Report, may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements contained in this Annual Report speak only as of the date hereof, and the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Business

History

American Overseas Group Limited ("AOG") was incorporated on January 28, 1998, under the laws of Bermuda. AOG was originally organized to operate a mono-line financial guaranty reinsurance subsidiary which was subsequently placed in voluntary run-off in 2009.

On May 2, 2006, AOG completed an initial public offering ("IPO"), and AOG's common shares were thereafter traded on the NASDAQ Global Market. Effective May 14, 2009, AOG's common shares were voluntarily delisted from the NASDAQ Global Market and thereafter have traded on the Pink Sheets. In addition, AOG obtained a primary listing on the Bermuda Stock Exchange effective May 14, 2009.

AOG and Orpheus Group Ltd. ("OGL") came under common control on June 26, 2013 and, on October 28, 2014, AOG acquired all of the outstanding stock of OGL for a combination of Senior Notes and AOG common stock. In this Annual Report AOG, OGL and all of its subsidiaries are referred to as the "Company," "we," "us" or "our."

Our Businesses

Our business group comprises the following categories:

1. U.S.-based property and casualty insurance companies that provide non-standard auto insurance through specialty managing general agents ("MGAs")
2. Barbados-based affiliated reinsurance companies that assume a small portion of the U.S.-sourced non-standard auto business
3. U.S and Bermuda-based management services companies
4. Barbados-based legacy financial guaranty reinsurance company, in voluntary run-off since 2009

The primary source of our active property and casualty business consists of two U.S. operating subsidiaries: Old American County Mutual Fire Insurance Company ("OACM"), a Texas insurance company that is licensed to write certain property and casualty business under the unique Texas-only county mutual license, and Old American Indemnity Company ("OAIC"), an admitted carrier domiciled in Kentucky that is licensed to write property and casualty insurance in 14 states, both of which are managed exclusively by us. These companies specialize in the niche of non-standard automobile insurance sold through MGAs and operate principally on a fee-based business model.

Our fee-based model means that, unlike traditional insurance companies, we generate the majority of our income from fees, not underwriting profits. Our business generates fee income based upon underwriting volume, by offering issuing carrier capacity to specialty MGAs who sell, control, and administer books of insurance business that are supported by reinsurance. At OACM, we do not retain any underwriting risk, which means that we cede 100% of the business written into the reinsurance market. At OAIC, we retain a small portion of the underwriting risk, and then cede half of that retention to one of our affiliated reinsurers.

Our affiliated reinsurers provide reinsurance capacity primarily to OAIC, and on a very limited basis to certain MGA programs written by OACM. Such reinsurance is provided through our Barbados-based reinsurance subsidiary as well as through segregated accounts of our Barbados segregated account reinsurer.

Our management services subsidiaries provide services to OACM, OAIC, and American Overseas Reinsurance Company Limited ("AORE"). Our management companies are based in the U.S. and Bermuda. While the fees for providing services to our regulated subsidiaries are eliminated from income in our GAAP consolidation, they represent a substantial stream of cash flow that is available within the Company outside of the normal dividend restrictions imposed by local regulation.

Our legacy financial guaranty reinsurance company, AORE is based in Barbados and has been in voluntary run-off since 2009.

U.S. Property and Casualty Insurance Companies

The Role of MGAs:

We provide access to U.S. property and casualty insurance underwriting capacity in the specialty niche of non-standard auto insurance through MGAs for a fee. This fee is generally based upon underwriting volume (gross written premium plus policy fees). MGAs who specialize in non-standard auto insurance and seek our fee-based underwriting capacity are generally in one of the following categories:

- MGAs writing specialized books of business supported by reinsurers; or
- MGAs affiliated with insurance companies seeking a fronting arrangement for the following reasons:
    - Their insurers have access to origination but require access to licensing in our states;
    - Their insurers wish to utilize OACM's county mutual licensed authority to impose rating surcharges for insureds' driving violations and other undesirable risk characteristics.

Our business model relies on our MGAs to provide the infrastructure associated with providing underwriting, policy administration, claims handling, cash management and other services traditionally associated with insurance companies. As a result, our gross written premiums and fees are scalable. Significant additional premium volume can be generated with minimal incremental expense.

Our business model also relies upon significant risk mitigation practices. We cede substantially all of the underwriting risk at OACM and retain a small percentage of the underwriting risk at OAIC. We remain exposed to the credit risk of the reinsurers, including the risk that one of our reinsurers becomes insolvent or otherwise unable or unwilling to pay claims. To mitigate this credit risk, we have established financial criteria for selecting reinsurers as well as comprehensive methodologies, collateral arrangements and monitoring systems. To mitigate the financial and operational risks associated with MGAs, we have several risk mitigation procedures and requirements in place.

Business Philosophy:

We recognize that there are significant potential risks associated with a business model that relies upon third parties to underwrite, administer and handle claims on the insurance policies we provide. However, we approach this business opportunity with the fundamental goal of building long term partnerships with both our MGAs and third party reinsurers. We strive to avoid any MGA or reinsurer who is aiming for rapid growth based solely on generating premium volume because of the obvious pitfalls, such as problems with policy service, claims handling and customer service that can occur from that type of approach. We believe that it is critically important to select MGAs and reinsurers who have a long-term commitment to this product niche and who adhere to our standards of managing their business.

As part of our MGA selection process, we perform extensive due diligence on our prospects. Once selected, we perform regular audits to ensure that the MGAs are managing their programs in accordance with our MGA agreements and expectations. We emphasize to our MGAs the importance of producing a profitable book of business that will garner and retain support from the reinsurance market.

We also cultivate long-standing relationships with our reinsurance partners, and meet directly with senior management on a regular basis to ensure clear and direct communication between our reinsurance partners and our executive team. We share the results of our regular MGA audits with both the MGAs and the reinsurers, so that there is regular and consistent communication between all business partners involved.

Our experienced professional management team offers substantial resources to our MGAs in the form of value-added services, such as: advice and assistance with general business expertise and the necessary IT system requirements, support with product design and rate filings, review and approval of reinsurance submissions, and monitoring of regulatory compliance matters. Our senior management team has substantial experience in the specialized niche of non-standard auto business as well as the broader property and casualty insurance and reinsurance industry. Biographies of the senior executive team can be found under "Directors and Executive Officers Information."

Contractual Relationships with MGAs and Reinsurers:

In connection with writing non-standard auto business, we enter into agency and reinsurance agreements with the MGAs and the reinsurers. In some cases, the MGAs and the reinsurers for a program are part of the same organization or are otherwise affiliated. The MGA generally is the party that will handle the marketing and underwriting of the policies (subject to certain limitations), the overall administration of the business, including preparing reports and fiduciary responsibilities (e.g. collecting premiums, paying commissions, losses and loss adjustment expenses, assessments) required pursuant to the applicable agreements, and handling of claims (up to certain limits as set forth in the specific program).

As a result of our contract design, substantially all of the underwriting risk and business risk inherent in the arrangement is borne by the reinsurers. We have residual exposure to Extra Contractual Obligations and Excess of Policy Limits Losses (ECO and XPL), when such amounts exceed the limits stated in our program reinsurance contracts, and we have purchased additional reinsurance coverage for such exposure.

We regularly review and update the minimum capital and ratings requirements for our reinsurers. We also review historical financial results of proposed reinsurers to assess financial stability. Some MGAs have affiliated insurance carriers that serve as reinsurers on the programs fronted by us. If such a reinsurer does not meet our standard selection criteria, we can engineer adequate security through a number of risk mitigating requirements, such as letters of credit and trust agreements. We monitor our collateral on a regular basis and set our collateral requirements to limit our credit exposure.

Our contracts relating to collateral typically provide for changes in the level of collateral required based on estimates of reinsurance recoverables. As of December 31, 2016, we held $194.5 million in collateral against $238.5 million in total reinsurance recoverable, which includes recoverables from highly-rated domestic reinsurers that are not required to provide collateral.

Geographic Distribution and Licensing:

To date, we have predominantly written our business through OACM in the state of Texas. In 2016 OACM was the thirteenth largest auto insurer in the state[1]. OACM is only licensed to write business in Texas, and possesses a unique and valuable license which allows it to submit multiple rate filings to the Texas Department of Insurance, its regulator. This allows OACM to appoint multiple MGAs, each of which can submit one or more rate filings through OACM. This enables each of the MGAs to produce business through their own distribution channel in the name of OACM, but each MGA program remains independent to all of the other business written by other MGA producers. In addition, county mutual licenses have certain competitive advantages which include surcharge rating flexibility and effective exemption from Texas Automobile Insurance Plan Association (TAIPA) assignments for assigned risk auto business via earned credits for the non-standard auto policies written.

OAIC operates outside of Texas, and is currently writing non-standard auto business in Georgia and Oklahoma. OAIC is licensed in fourteen states, and is expected to continue to add new MGA programs each year as part of its growth strategy. Unlike the unique license held by OACM, the license of OAIC only allows one rate filing per state, therefore OAIC writes through a single MGA in each state.

Affiliated Reinsurance Business

Our affiliated reinsurance companies provide reinsurance capacity for a portion of the retained underwriting risk of OAIC and to a small number of selected MGA programs of our U.S.-based non-standard auto insurance business. Such reinsurance is provided through our Barbados-based reinsurance subsidiary as well as through segregated accounts of our Barbados segregated account reinsurer.

We have assessed our overall risk appetite for underwriting risk, and have determined to participate in the U.S.-sourced non-standard auto risk on a limited basis for the foreseeable future.

Management Services Business

Business Overview:

We own management services companies in the U.S. and Bermuda, which comprise our Management Services business. The Management Services business operates our own regulated subsidiaries based in the U.S. and Barbados.

Management Contracts With Regulated Affiliates:

The Management Services business has an exclusive management contract with OACM which expires on January 1, 2036. The OACM management contract is transferable, subject to regulatory approval. The OACM management contract provides that the fee earned by the Management Services business is calculated and settled on a monthly basis. Besides the management fee paid to the Management Services business, OACM generally incurs direct expenses for actuarial, audit and legal fees.

The Management Services business is also party to a management contract for OAIC. The fee earned by the Management Services business under the OAIC management contract is settled quarterly.

[1] Source: SNL Financial and NAIC Annual Statements

The Management Services business has also provided services to our financial guaranty reinsurer since 2010. The contract with AORE provides that AORE will pay an arms-length fee using hourly rates that are comparable to other sophisticated captive managers based in Bermuda.

Financial Guaranty Reinsurance Business

AORE was formed by the Company in Bermuda on January 28, 1998 and initially operated as a mono-line financial guaranty reinsurer. In 2009, AORE was placed in voluntary run-off. OGL has provided services to AORE since 2010. AORE re-domesticated from Bermuda to Barbados on December 7, 2012 after substantially reducing its financial guaranty exposure. In connection with the re-domestication, AORE received approval of the Barbados Financial Services Commission ("the Barbados FSC") for licensing as an Exempt Insurance Company in accordance with the provisions of the Barbados Exempt Insurance Act 1983. Prior to the re-domestication, AORE received confirmation of a no objection from the Bermuda Monetary Authority's Insurance Division in accordance with the Insurance Act 1978 and filed a notice of discontinuance under the Companies Act 1981, which was approved by the Bermuda Minister of Finance.

AORE no longer writes financial guaranty business and its legacy book of financial guaranty exposure remains in run-off, which will likely take many years to complete. AORE assumed financial guaranty reinsurance through both quota share and facultative reinsurance agreements. The financial guaranty business assumed by AORE generally provided for guarantees of scheduled principal and interest payments on an issuer's obligations in accordance with the obligations' original payment schedule. All of AORE's remaining exposure was assumed from a single group of companies, Assured Guaranty Ltd. ("Assured"). During 2016, insured par (net of escrowed transactions) decreased 36% from $4.7 billion to $3.0 billion. This compares to outstanding par of approximately $50 billion when AORE entered voluntary run-off in 2009.

While AORE still has significant exposure to several troubled credits, its below investment grade exposure declined 14% in 2016, from $328 million to $283 million, amid light claims activity. Various bonds issued by Puerto Rico totaling $140.2 million represent 49.5% of our remaining below investment grade exposure. The situation in Puerto Rico became more severe during 2016, when the commonwealth publicly announced it was unable to meet its financial obligations. In June 2016, the U.S. Congress passed the PROMESA Act to address the worsening debt crisis in Puerto Rico. An important feature of this legislation was the formation of an oversight board of qualified individuals to formulate a solution to the growing financial crisis in Puerto Rico. Ultimately, in May 2017, most of the entities that had issued bonds filed for legal protection under Title III of PROMESA, which is similar to bankruptcy, even though technically territories of the U.S. are not allowed to file for bankruptcy. These proceedings are just getting underway, and will undoubtedly take several months, if not years, to resolve. We will continue to monitor the remaining financial guaranty exposure closely.

Capital Resources

We had $9.0 million of Senior Notes outstanding as of December 31, 2016. In addition, the U.S. property and casualty business had $10.5 million of Senior Secured Notes outstanding at our U.S. holding company. The Company believes that its existing resources will be sufficient to service these obligations for the foreseeable future.

The Company also had $58.6 million par of Series A Preference Shares and AORE had $37.3 million liquidation value of Class B Preference Shares outstanding as of December 31, 2016. We have reduced the carrying values of both of these classes of preferred stock in our financial statements in accordance with U.S. GAAP. We have also established a separate trust for each of these classes of preferred stock with assets that we believe will be sufficient to repay the par (or liquidation value as the case may be) in accordance with the terms of these securities.

The highlights of the above securities are as follows:

AOG Senior Notes:

The Company had $9.0 million of Senior Notes outstanding at December 31, 2016. These notes bear interest at 9.0% per annum which is payable quarterly. No principal is due until maturity on October 28, 2039. Principal can be prepaid at any time without penalty.

U.S. Property and Casualty Senior Secured Notes:

Our U.S. holding company subsidiary had $10.5 million of Senior Secured Notes outstanding at December 31, 2016. These notes bear interest at 12.0% per annum which is payable quarterly. No principal is due until maturity on January 1, 2040. Principal can be prepaid at any time without penalty.

AOG Series A Preference Shares:

AOG had 58,600 Series A Preference shares (the "Series A shares") outstanding as of December 31, 2016. The Series A shares have a liquidation preference of $1,000 per share and mature on December 15, 2066. Dividends have not been paid on the Series A shares since 2008. Unpaid dividends are not cumulative. The Series A shares were valued at $150 per share by an independent third party as of June 26, 2013 and our carrying value of the Series A shares was adjusted to that valuation as of that date. The $850 per share valuation adjustment will be accreted at 3.61% through maturity for accounting purposes. The carrying value of the Series A shares was $169.28 per share at December 31, 2016.

The Company established an irrevocable trust for the benefit of the holders of the Series A shares on February 14, 2014 (the "Series A Trust"). An initial contribution of $3.0 million was made to the Series A Trust on that date. This contribution assumes a 5.8% return compounded annually until the mandatory redemption date. The assets of the Series A Trust were invested in a global equity index fund. The Company expects that the assets in the Series A Trust will be sufficient to meet its obligation to the holders of the Series A shares at the mandatory redemption date, December 15, 2066. The Company is authorized to use assets in the Series A Trust to redeem Series A shares at any time for an amount not in excess of a holder's pro-rata share of the assets in the Series A Trust as of the date of any such redemption. The value of the assets held in the Series A Trust was $56.23 per Series A share at December 31, 2016.

On August 8, 2016, the Company commenced a tender offer for any and all of its outstanding Series A Non-Cumulative Preference Shares for cash at a price not to exceed $200 for each $1,000 principal liquidation amount of the Series A Shares validly tendered and accepted by the Company. In order to be purchased in the tender offer, Series A Shares were to be tendered on or before September 2, 2016, and accepted by the Company. Of the 59,700 shares outstanding at the commencement of the offer, 1,100 shares were tendered for a redemption value of $220,000.

AORE Class B Preference Shares:

AORE had 373.01 Class B Preference shares (the "Class B shares") outstanding as of December 31, 2016. The

Class B shares carry a 6.276% dividend, have a liquidation preference of $100,000 per share and are perpetual. Dividends on the Class B shares, which had been suspended between mid-2009 and mid-2014, were reinstated in 2014 through December 15, 2015. On February 23, 2016, AORE announced that it had suspended the dividend on the Class B shares to ensure liquidity to meet its operational needs. Unpaid dividends are not cumulative. The Class B shares were valued at $16,228.46 per share when they were issued in 2009. The $16,228.46 per share value is reflected as non-controlling interest in preferred shares of subsidiary in the financial statements.

AORE established an irrevocable trust for the benefit of the holders of the Class B shares on July 15, 2014 (the "Class B Trust"). An initial contribution of $2.0 million was made to the Class B Trust on that date. The assets of the Class B Trust were invested in a global equity index fund. The Company is authorized to use assets in the Class B Trust to redeem Class B shares at any time for an amount not in excess of a holder's pro-rata share of the assets in the Class B Trust as of the date of any such redemption. The value of the assets held in the Class B Trust was $5,582.48 per Class B share at December 31, 2016.

The Company considers the Class B shares as part of the permanent capital of AORE and intends to use this capital to support the business of AORE.

Selected Five Year Financial Data

The following tables set forth our selected historical consolidated financial information for the periods ended and as of the dates indicated. These selected historical consolidated results are not necessarily indicative of results to be expected in any future period. You should read the following selected financial information together with the other information contained in this report, including the consolidated financial statements and related notes included herein.

Selected Five Year Financial Data

($ in millions, except for share information)	2016	2015	2014	2013	2012
			For The Years Ended December 31		
OPERATING RESULTS					
Gross written premium	$ 426.3	$ 385.0	$ 418.3	$ 224.9	$ (16.1)
Net written premium	9.3	15.4	30.6	36.1	(16.1)
Fee income	12.1	12.5	12.8	6.3	-
Premiums earned	$ 3.1	$ 6.4	$ 36.3	$ 35.8	$ 21.5
Net loss and loss adjustment expenses	(14.3)	(11.6)	(12.7)	(31.2)	(22.1)
Acquisition costs	(0.7)	(0.9)	(6.9)	(9.3)	(9.1)
Underwriting gain (loss)	$ (11.9)	$ (6.1)	$ 16.7	$ (4.7)	$ (9.7)
Net par outstanding, net of escrowed transactions	3,007	4,680	6,169	7,615	9,245
Net debt service outstanding	4,668	7,065	9,242	11,355	13,711
Reconciliation of operating income:					
Net income attributable to common shareholders	$ (7.5)	$ 16.2	$ 38.4	$ (0.3)	$ (22.9)
Reconciling adjustments:					
Dividends on preference shares	-	2.3	1.5		
Net change in fair value of credit derivatives	(8.2)	(30.1)	(18.2)	(1.9)	14.8
Net realized investment losses (gains)	1.9	0.1	(4.8)	(2.3)	(0.7)
Fair value adjustments	(0.8)	(5.5)	(22.8)	3.7	-
Amortization of intangibles	-	2.2	2.7	2.3	-
Operating income (loss)	$ (14.6)	$ (14.8)	$ (3.2)	$ 1.5	$ (8.8)
SELECTED BALANCE SHEET DATA					
Investments and cash	$ 206.6	$ 193.2	$ 238.2	$ 285.3	$ 247.2
Premiums receivable	69.4	61.9	57.2	72.6	
Reinsurance balances receivable, net	310.4	277.4	283.0	330.1	11.6
Deferred acquisition costs	0.2	0.2	0.5	0.9	28.8
Goodwill and intangible assets	37.9	37.9	40.1	42.8	-
Total assets	627.8	574.0	623.5	742.6	297.4
Loss and LAE reserve	276.7	249.2	265.4	323.6	22.2
Unearned premium reserve	101.2	93.5	95.2	108.9	72.5
Ceded premium payable	77.2	64.4	56.1	77.8	-
Derivative liabilities	8.4	16.8	46.7	65.0	65.2
Notes payable	19.6	40.0	60.9	47.8	-
Redeemable Series A preference shares	9.9	9.8	9.4	9.4	59.7
Fair value adjustment	17.0	19.4	22.1	26.6	-
Total liabilities	559.6	501.8	565.1	669.8	220.4
Shareholders equity	62.1	66.1	52.3	63.8	70.0
Non-controlling interest	6.1	6.1	6.1	9.1	7.0
Total equity	68.2	72.2	58.4	72.8	77.0
SHARE INFORMATION					
Basic earnings per share	$ (169.18)	$ 371.96	$ 1,813.44	$ (16.62)	$ (860.00)
Diluted earnings per share	(169.14)	370.36	1,797.58	(16.39)	(858.00)

American Overseas Group Limited

Consolidated Financial Statements
For the Year Ended
December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
American Overseas Group Limited

We have audited the accompanying consolidated financial statements of American Overseas Group Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive (loss) income, equity and retained deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Overseas Group Limited and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note 18 of the financial statements which describes the risks and uncertainties of the Company's exposure to the Commonwealth of Puerto Rico. Our opinion is not modified in respect of this matter.

Deloitte Ltd.

June 14, 2017

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015

	2016		2015	
Assets				
Fixed-maturity securities held as available for sale, at fair value	$	80,525,286	$	103,801,752
Equity investments available for sale, at fair value		6,652,662		6,856,397
Cash and cash equivalents		71,130,790		31,130,939
Restricted cash		48,306,033		51,403,076
Accrued investment income		219,113		202,864
Premiums receivable		69,418,710		61,877,148
Reinsurance balances receivable, net		310,350,944		277,439,278
Salvage and subrogation recoverable		1,896,077		1,213,936
Deferred policy acquisition costs		157,575		192,408
Intangible assets		4,800,000		4,800,000
Goodwill		33,050,000		33,050,000
Other assets		1,300,784		2,030,127
Total assets	$	627,807,974	$	573,997,925
Liabilities and Shareholders' Equity				
Liabilities:				
Losses and loss expense reserve	$	276,687,908	$	249,204,344
Unearned premiums		101,198,347		93,472,483
Ceded premium payable		77,178,341		64,380,313
Payable to general agents		1,334,422		1,193,824
Funds withheld		43,333,864		3,925,745
Accounts payable and accrued liabilities		4,174,205		2,315,601
Redeemable Series A preference shares		9,919,812		9,786,582
Derivative liabilities		8,357,625		16,778,892
Fair value adjustment		17,043,678		19,355,150
Notes payable		19,526,293		40,000,004
Non-owned interest in VIE		300,000		300,000
Interest payable		515,873		1,023,400
Deferred tax liability		44,625		37,625
Total liabilities		559,614,993		501,773,963
Shareholders' equity:				
Common shares		4,454,200		4,376,500
Additional paid-in capital		187,281,343		186,398,669
Accumulated other comprehensive income (loss)		300,986		(2,214,236)
Retained deficit		(129,896,924)		(122,390,347)
Total shareholders' equity		62,139,605		66,170,586
Non-controlling interest in preferred shares in subsidiaries		6,053,376		6,053,376
Total equity		68,192,981		72,223,962
Total liabilities and equity	$	627,807,974	$	573,997,925

See Accompanying Notes to the Consolidated Financial Statements.

AMERICAN OVERSEAS GROUP LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS

December 31, 2016 and 2015

	2016	2015
Net premiums earned	$ 3,093,640	$ 6,424,495
Fee income	12,090,941	12,516,516
Net investment income	1,762,777	2,782,718
Net realized (losses)	(1,904,798)	(87,757)
Fair value adjustment	1,958,241	2,408,319
Net change in fair value of credit derivatives	10,542,346	30,528,630
Other income	7,424	253,028
Total revenues	27,550,571	54,825,949
Net losses and loss adjustment expenses	14,278,541	11,583,988
Acquisition costs	652,196	864,632
General and administrative expenses	16,456,105	15,927,072
Amortization of intangible assets	-	2,238,167
Interest expense	3,265,315	5,376,304
Other expense	397,991	280,295
Total expenses	35,050,148	36,270,458
(Loss) Income before income tax expense and non-controlling interest	(7,499,577)	18,555,491
Income tax expense	(7,000)	(7,000)
Net (loss) income before non-controlling interest	(7,506,577)	18,548,491
Non-controlling interest - dividends on Class B preference shares of subsidiary	-	(2,341,011)
Net (loss) income attributable to common shareholders	$ (7,506,577)	$ 16,207,480
Net (loss) income per common share:		
Basic	$ (169.18)	$ 371.96
Diluted	$ (169.14)	$ 370.36
Weighted-average number of common shares outstanding:		
Basic	44,371	43,573
Diluted	44,381	43,761

See Accompanying Notes to the Consolidated Financial Statements.

AMERICAN OVERSEAS GROUP LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

December 31, 2016 and 2015

	2016	2015
Net (loss) income before non-controlling interest	$ (7,506,577)	$ 18,548,491
Other comprehensive gain (loss)		
Change in unrealized fair value of investments	610,424	(3,286,485)
Less: reclassification adjustment for net realized investment gains included in income	1,904,798	87,757
Less: Reclassification adjustment for OTTI included in net income	-	-
Other comprehensive gain (loss)	2,515,222	(3,198,728)
Comprehensive (loss) income	$ (4,991,355)	$ 15,349,763

See Accompanying Notes to the Consolidated Financial Statements.

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF EQUITY AND RETAINED DEFICIT
December 31, 2016 and 2015

	Share capital	Noncontrolling Interest	Additional paid-in-capital	Accumulated other comprehensive (loss) income	Retained deficit	Total stockholders' equity
Balance, December 31, 2014	$ 4,398,897	6,053,376	185,638,345	893,142	(138,597,827)	58,385,933
Net income	-	-	-	-	18,548,491	18,548,491
Share issuance	25,700	-	310,385	-	-	336,085
Share based compensation	58,900	-	434,292	-	-	493,192
Impact of amalgamation with OGL	(106,997)	-	15,647	91,350	-	-
Net change in unrealized gains and losses on investments	-	-	-	(3,198,728)	-	(3,198,728)
Dividends on preference shares	-	-	-	-	(2,341,011)	(2,341,011)
Balance, December 31, 2015	4,376,500	6,053,376	186,398,669	(2,214,236)	(122,390,347)	72,223,962
Net loss	-	-	-	-	(7,506,577)	(7,506,577)
Share based compensation	77,700	-	882,674	-	-	960,374
Net change in unrealized gains and losses on investments	-	-	-	2,515,222	-	2,515,222
Balance, December 31, 2016	$ 4,454,200	$ 6,053,376	$ 187,281,343	$ 300,986	$ (129,896,924)	$ 68,192,981

See Accompanying Notes to the Consolidated Financial Statements

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income for the year	$ (7,506,577)	$ 18,548,491
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Net realized losses on sale of investments	1,904,798	87,757
Net unrealized gains on credit derivatives	(10,542,346)	(30,528,630)
Deferred tax expense	7,000	7,000
Amortization of intangible assets	-	2,238,167
Interest expense	3,265,315	5,376,304
Share based compensation	960,374	493,192
Amortization of fair value adjustment	(1,958,242)	(2,408,317)
Amortization of bond discount	119,285	178,705
Changes in operating assets and liabilities:		
Accrued investment income	(16,249)	117,321
Premiums receivable	(7,541,562)	(4,683,301)
Reinsurance balance receivable, net	(32,911,666)	5,540,417
Salvage and subrogation	(682,141)	1,447,624
Deferred acquisition costs, net	34,833	259,242
Other assets	729,343	(965,905)
Changes in derivative liability	2,121,079	611,235
Unpaid losses and loss adjustment expenses	27,483,564	(16,234,234)
Unearned premiums	7,725,864	(1,804,357)
Ceded premium payable	12,798,028	8,245,385
Payable to general agents	140,598	838,391
Funds withheld	39,408,119	1,358,114
Accounts payable and accrued liabilities	1,858,604	(1,833,075)
Net cash provided by (used in) operating activities	**37,398,021**	**(13,110,474)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of available for sale securities	(49,835,222)	(45,090,980)
Proceeds from sales of investments	65,123,431	67,992,535
Proceeds from maturities of investments	8,683,131	18,713,929
Change in restricted cash	3,097,043	(4,435,150)
Net cash provided by investing activities	**27,068,383**	**37,180,334**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term note payable	(20,473,711)	(20,890,356)
Interest paid	(3,772,842)	(5,540,677)
Payment on preferred shares	(220,000)	-
Proceeds from issuance of common shares	-	336,085
Dividends paid on preferred shares	-	(2,341,011)
Net cash used in financing activities	**(24,466,553)**	**(28,435,959)**

AMERICAN OVERSEAS GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2016 and 2015

	2016	2015
Net decrease in cash and cash equivalents	39,999,851	(4,366,099)
Cash and cash equivalents - Beginning of year	31,130,939	35,497,038
Cash and cash equivalents - End of year	$ 71,130,790	$ 31,130,939
Net taxes (refunded) paid	(6,981)	-

See Accompanying Notes to the Consolidated Financial Statements.

1. 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 remains in run-off.

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.

(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. Transactions with the segregated account owned by the Company have been eliminated on consolidation. For further discussion of VIEs, see Note 20.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Investments

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

Other-than-temporary impairments on investments

The Company reviews its investment portfolio no less than quarterly in order to determine whether an other-than-temporary impairment ("OTTI") of its fixed-maturity 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) 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. Such reserves are computed by pro rata methods. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) 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.

(g) Losses and loss adjustment expenses

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

For its financial guaranty reinsurance business, the Company establishes loss reserves based on a review of reserving practices, reported reserves, surveillance reports and other data provided by its ceding companies. In addition, the Company augments the ceding company information with its own research, analysis and modeling.

The Company recognizes a claim liability on a financial guaranty insurance contract (excluding those written in derivative form) when the Company estimates that the present value of expected net cash outflows to be paid under the insurance contract will exceed the unearned premium revenue for that contract. The present value of expected net cash outflows is discounted using a current risk free rate based on the remaining period (contractual or expected as applicable) of the insurance contract. Expected net cash outflows are probability weighted cash flows that reflect the likelihood of possible outcomes, based on all information available to the Company.

The Company updates the discount rate each reporting period and revises expected net cash outflows when increases or decreases in the likelihood of a default and potential recoveries occurs. The discount of the loss and loss expense reserve is accreted through earnings and included in losses and loss adjustment expenses. Changes to the estimate of loss and loss adjustment expenses reserve after initial recognition are recognized in "loss and loss adjustment expenses" in the Consolidated Statements of Operations in the period of the change.

The Company reviews the portfolio on a continuous basis to identify problem credits. Quarterly, the Company reviews reserves. Management establishes reserves that it believes are adequate to cover the present value of the ultimate liability for claims. The reserves are based on estimates and are substantially dependent on the surveillance activities and reserving policies of the Company's ceding companies and may vary materially from actual results. Adjustments based on actual loss experience are recorded in the Consolidated Statements of Operations in the periods in which they become known.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(h) Derivative instruments

American Overseas Reinsurance Company Limited ("AORE") has entered into agreements to reinsure derivative instruments, consisting primarily of credit default swaps that it intends to reinsure for the full term of the contract. While management considers these agreements to be a normal extension of its financial guaranty reinsurance business and reinsurance in substance, certain of these contracts meet the definition of a derivative under Accounting Standards Codification ("ASC") 815 "Derivatives and hedging" ("ASC 815"). ASC 815 establishes accounting and reporting standards for derivative instruments, and requires the Company to recognize the derivative instruments on the Consolidated Balance Sheets at their fair value, under "Derivative assets or liabilities," as applicable, with changes in fair value recognized in earnings. Changes in fair value are recorded in "Net change in fair value of credit derivatives" on the Consolidated Statements of Operations. The "Realized gains (losses) and other settlements" component of this change in fair value includes (i) net premiums earned on credit derivative policies, including current premiums receivable on assumed credit derivative polices, net of ceding commissions, and (ii) loss payments to the reinsured including losses payable upon the occurrence of a credit event. The "Unrealized gains (losses)" component of the "Net change in fair value of credit derivatives" includes all other changes in fair value, including changes in instrument specific credit spreads and reduction in fair values due to commutation of credit derivative policies.

Management uses, as a key input to the estimation of the fair value of our derivatives, the mark–to-market valuation information provided to us by our ceding companies ("the mark"). The Company participates in credit default swaps through a reinsurance treaty with a ceding company and therefore the contract to be valued is a reinsurance contract on a derivative. This contract is not identical to the underlying credit default swaps. In particular, although the Company's contract allows it to share in the economic results of the underlying contracts, it does not provide rights to the same information to which the ceding companies have access. Under ASC 820, "Fair value measurements and disclosures" ("ASC 820"), the fair value of the Company's contract represents the exit price that would be paid to a market participant to assume the reinsurance contract as written; that is, the amount the market participant would require to assume the Company's potential obligations under the contract with the same contractual rights and obligations, including those which limit the information about the ceding companies' underlying contracts that are being reinsured. Given the contractual terms that exist, the Company believes that an exit market participant would look to the information that is available from the ceding companies to determine the exit value of the Company's reinsurance contract. The primary insurers underwrite each of the transactions underlying the reinsurance contract and they have access to all the underlying data related to the transactions. The ceding companies use their own internal valuation models where market prices are not available. The Company employs procedures to test the reasonableness of the mark both in process and absolute terms because we believe that an exit market participant would perform similar procedures when determining an exit price for our reinsurance contract. If it appears that the fair values generated by the ceding companies internal models and reported to the Company are consistent with macro spread movements and general market trends, and the Company believes that the modeling and assumptions that drive the modeling are reasonable (based on the Company's ceding company reviews and review of publicly available information), the Company will use the mark provided by the ceding company as a key input in the determination of the fair value of the reinsurance contract. There is no single accepted model for fair valuing credit default swaps and there is generally not an active market for the type of credit default swaps insured by ceding companies and reinsured by us. Therefore, due to the limited availability of quoted market prices for these derivative contracts and the inherent uncertainties in the assumptions used in models, different valuation models may produce materially different results and be materially different from actual experience. In addition, due to the complexity of fair value accounting in particular on accounting for derivatives, future amendments or interpretations of these standards may cause us to modify our accounting methodology in a manner which may have an adverse impact on our financial results.

The use of valuation information provided to us by our ceding companies remains appropriate for the reasons described above, as well as the fact that the credit default swaps we reinsure are the same as those valued by our primaries, and the Company views its hypothetical principal market to be the same as that of our primaries,

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(h) Derivative instruments (cont'd)

being the financial guaranty insurance and reinsurance market. The Company's fair value on credit derivatives is adjusted for the Company's own non-performance risk in accordance with ASC 820. Therefore there are two components to the fair value process of the Company's derivatives. The first component is the fair value assessment performed by the primary on each derivative instrument ceded to the Company. The second component is the Company's own non-performance risk adjustment that is applied to the total fair valued derivatives obtained by the primary.

(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 6 – Financial Guaranty Contracts Accounted for as Credit Derivatives and Note 7 – Fair Value of Financial Instruments.

(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) Acquisitions

The Company uses the purchase method in accounting for acquisitions and business combinations except for transactions between entities under common control. The difference between the fair value of net assets acquired and purchase price is recorded as goodwill or negative goodwill.

Due to OGL's consolidation of AOG effective June 26, 2013, certain adjustments were required under the purchase method of accounting. As further described in Note 2 (b), AOG adopted OGL's historical basis of accounting on acquisition of OGL on October 28, 2014. The fair value adjustments resulting from OGL's acquisition of voting control over AOG in 2013 are therefore reflected in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(k) Acquisitions (cont'd)

The purchase method of accounting requires that the acquirer record the assets and liabilities acquired at their estimated fair value. The fair values of each of the reinsurance assets and liabilities acquired are derived from probability-weighted ranges of the associated projected cash flows, based on actuarially prepared information and management's strategy. It is assumed that a hypothetical market participant would incorporate the runoff of the AORE financial guaranty business into existing insurance operations. The key assumptions used by OGL and, it believes, by other run-off market participants in the fair valuation in a business combination are (i) the projected payout, timing and amount of claims liabilities; (ii) a risk-free discount rate, which is applied to determine the present value of the future cash flows; (iii) the estimated unallocated loss adjustment expenses to be incurred over the life of the run-off; (iv) the impact of any accelerated run-off strategy; (v) an appropriate risk margin; and (vi) the non-performance risk of the AOG as it relates to its own liabilities.

The difference between the original carrying values of the liability recorded for the Redeemable Series A preference shares, as well as that of certain reinsurance assets and liabilities, including unearned premium reserves, loss and loss adjustment expenses and deferred acquisition costs, acquired at the date of acquisition and their fair values are recorded as an adjustment to those assets and liabilities, with the remainder recognized as an other liability. The other liability, related to the costs related to the financial guaranty business, is referred to in the Consolidated Balance Sheet as the Fair Value Adjustment ("FVA"). The FVA, along with adjustments to certain assets and liabilities, are amortized over the estimated payout period of outstanding losses and loss expenses acquired and accreted over the period to maturity of the Redeemable Series A preference shares; such adjustments are referred to as Fair Value Adjustment on the Consolidated Statements of Operations. To the extent the actual payout experience after the acquisition is materially faster or slower than anticipated at the time of the acquisition, there is an adjustment to the estimated ultimate loss reserves, or there are changes in bad debt provisions or in estimates of future run-off costs following accelerated payouts, then the amortization of the purchase adjustments is adjusted to reflect such changes.

(l) Assets Held and Liabilities Related to Segregated Accounts

A subsidiary of the Company is licensed to maintain segregated accounts relating to third party entities. The assets related to these programs (which include cash and accounts receivable) represent funds under management as the participants retain the risk and rewards of ownership. In the case where the Company is the beneficiary of the segregated accounts, the segregated accounts have been consolidated in the accompanying financial statements.

(m) 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.

(n) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(o) 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.

(p) Recent accounting pronouncements

Statement of Cash Flows

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (a consensus of the Emerging Issues Task Force), which addresses the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flows with the objective of reducing the existing diversity in practice. Under the ASU, entities are required to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the ASU requires a reconciliation be presented either on the face of the statement of cash flows or in the notes to the financial statements showing the totals in the statement of cash flows to the related captions in the balance sheet. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If the ASU is adopted in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the effect on its Consolidated Statements of Cash Flows of adopting this ASU.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (a consensus of the Emerging Issues Task Force), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The issues addressed in the new guidance include debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investments, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. This ASU is not expected to have a material impact on the Company's Consolidated Statements of Cash Flows.

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 amendments in this ASU are intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions will use forward-looking information to better inform their credit loss estimates as a result of the ASU. While many of the loss estimation techniques applied today will still be permitted, the inputs to those techniques will change to reflect the full amount of expected credit losses. The ASU requires enhanced disclosures to help investors and other financial statement users to better understand significant estimates and judgments used in estimating credit losses, as well as credit quality and underwriting standards of an organization's portfolio.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(p) Recent accounting pronouncements (cont'd)

In addition, the ASU amends the accounting for credit losses on available-for-sale securities and purchased financial assets with credit deterioration. The ASU also eliminates the concept of "other than temporary" from the impairment model for certain available-for-sale securities. Accordingly, the ASU states that an entity must use an allowance approach, must limit the allowance to an amount at which the security's fair value is less than its amortized cost basis, may not consider the length of time fair value has been less than amortized cost, and may not consider recoveries in fair value after the balance sheet date when assessing whether a credit loss exists. For purchased financial assets with credit deterioration, the ASU requires an entity's method for measuring credit losses to be consistent with its method for measuring expected losses for originated and purchased non-credit-deteriorated assets.

The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For most debt instruments, 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. For the Company, this would be as of January 1, 2020. Early adoption is permitted for fiscal years, and interim periods with those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the effect on its Consolidated Financial Statements of adopting this ASU.

Revenue

In May 2014, the FASB issued guidance which revises the criteria for revenue recognition. Insurance contracts are excluded from the scope of the new guidance. Under the guidance, the transaction price is attributed to underlying performance obligations in the contract and revenue is recognized as the entity satisfies the performance obligations and transfers control of a good or service to the customer. Incremental costs of obtaining a contract may be capitalized to the extent the entity expects to recover those costs. The guidance is effective for reporting periods beginning after December 15, 2017 and is to be applied retrospectively. The Company is in the process of evaluating the impact of adoption, which is not expected to be material to our consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to present right-of-use assets and lease liabilities on the balance sheet. ASU 2016-02 is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the impact that this ASU will have on its Consolidated Financial Statements.

Financial Instruments

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, *Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this ASU are intended to make targeted improvements to US GAAP by addressing certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. One of the amendments pertains to liabilities that an entity has elected to measure at fair value in accordance with the fair value option for financial instruments. For these liabilities, the portion of fair value change related to credit risk will be separately presented in other comprehensive income. Currently, the entire change in the fair value of these liabilities is reflected in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(p) Recent accounting pronouncements (cont'd)

The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities will be required to record a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year in which the guidance is adopted. For the Company, this would be as of January 1, 2018. Early adoption is permitted only for the amendment related to the change in presentation of financial liabilities that are fair valued using the fair value option. The Company is currently evaluating the effect of adopting this ASU on its Consolidated Financial Statements.

3. PLEDGED ASSETS

As of December 31, 2016 and 2015, there were investments of $1.6 million, for both years, on deposit with state insurance department regulators related to a U.S. subsidiary.

As of December 31, 2016, and 2015, the Company had restricted cash of $48.3 million and $51.4 million, respectively, and investments at fair value of $67.2 million and $70.8 million, respectively, in trust and escrow accounts for the benefit of ceding companies. Pursuant to the terms of the reinsurance agreements with ceding companies regulated in the United States, the Company is required to secure its obligations to these ceding companies in accordance with applicable state statutes governing credit for reinsurance, and may not withdraw funds from these trust accounts without the ceding companies' express permission. The trust accounts are required to hold cash and investments equivalent to unearned premiums, case-basis and incurred but not reported loss reserves, credit impairments (a non GAAP measure representing losses expected to be paid on insured credit derivative policies), and a contingency reserve calculated by the ceding companies. Management reviews these balances for reasonableness quarterly.

AOG established an irrevocable trust (the "Series A Security Trust") for the benefit of the holders of the Series A Preference Shares. As of December 31, 2016 and 2015, the asset value of the Series A Security Trust was $3.3 million and $3.1 million, respectively, included within investments. Butterfield Trust Company has been appointed as its trustee. The Company has been authorized to redeem Series A Shares at any time for the amount that is not in excess of the Holder's pro-rata share of the assets in the Series A Security Trust.

AORE established an irrevocable trust (the "Class B Security Trust") for the benefit of the holders of its Class B Preference Shares. As of December 31, 2016 and 2015, the asset value of the Class B Security Trust was $2.1 million and $1.9 million, respectively, included within investments. Butterfield Trust Company has been 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.

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, 2016 and 2015, were as follows:

		Included in Accumulated Other Comprehensive Income ("AOCI")			
			Gross Unrealized Losses		
	Amortized Cost	Gross Unrealized Gains	Related to Changes in Estimated Fair Value	OTTI Included in Other Comprehensive Income (1)	Estimated Fair Value
2016					
US Treasuries and government agencies (2)	$ 18,949,528	$ 79,709	$ (21,259)	$ -	$ 19,007,978
Corporate debt securities	3,304,031	369	(10,943)	-	3,293,457
Mortgage-backed securities	17,523,170	252,342	(243,773)	-	17,531,739
Asset-backed securities	40,737,368	21,387	(66,643)	-	40,692,112
Total available for sale fixed-maturity investments	$ 80,514,097	$ 353,807	$ (342,618)	$ -	$ 80,525,286
Equity securities available for sale	6,362,865	510,807	(221,010)	-	6,652,662
Total investment portfolio	$ 86,876,962	$ 864,614	$ (563,628)	$ -	$ 87,177,948

4. INVESTMENTS (Cont'd)

2015	Amortized Cost	Included in Accumulated Other Comprehensive Income ("AOCI") Gross Unrealized Gains	Gross Unrealized Losses Related to Changes in Estimated Fair Value	Gross Unrealized Losses OTTI Included in Other Comprehensive Income [(1)]	Estimated Fair Value
US Treasuries and government agencies (2)	$ 24,708,169	$ 245,987	$ (21,575)	$ -	$ 24,932,581
Corporate debt securities	13,594,812	-	(1,744,427)	-	11,850,385
Mortgage-backed securities	22,612,687	345,469	(253,803)	-	22,704,353
Asset-backed securities	44,727,077	10,683	(423,327)	-	44,314,433
Total available for sale fixed-maturity investments	$ 105,642,745	$ 602,139	$(2,443,132)	$ -	$ 103,801,752
Equity securities available for sale	7,229,640	60,432	(433,675)	-	6,856,397
Total investment portfolio	$ 112,872,385	$ 662,571	$(2,876,807)	$ -	$ 110,658,149

(1) Represents the amount of OTTI losses in accumulated other comprehensive income ("AOCI"), since adoption of the accounting guidance for OTTI.
(2) Including US Government temporary liquidity guarantee program securities.

The Company did not have an aggregate investment in a single entity, other than U.S. Treasury securities, in excess of 10% of total investments at December 31, 2016 and 2015. The Company had no material investments in securities guaranteed by third parties and had no direct investments in financial guarantors as at December 31, 2016 and 2015.

4. INVESTMENTS (Cont'd)

The amortized cost and estimated fair value of fixed-maturity securities classified as available-for–sale, as of December 31, 2016 and 2015, by contractual maturity, are shown below. Expected maturities differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	December 31, 2016		December 31, 2015	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Less than one year	$ 15,826,921	$ 15,904,961	$ 20,274,043	$ 20,258,250
One through five years	6,499,362	6,470,548	18,553,866	17,060,423
Greater than five years	824,593	816,045	1,160,156	1,147,093
Mortgage-backed securities:				
RMBS	16,625,853	16,641,620	20,927,603	21,021,554
CMBS	-	-	-	-
Asset-backed securities	40,737,368	40,692,112	44,727,077	44,314,432
Total	$ 80,514,097	$ 80,525,286	$ 105,642,745	$ 103,801,752

The investments that have unrealized loss positions as of December 31, 2016 and 2015, aggregated by investment category and the length of time they have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2016:						
Fixed-maturity investments:						
US Treasuries and government agencies	$ 7,801,224	$ (12,673)	$ -	$ -	$ 7,801,224	$ (12,673)
Corporate debt securities	3,669,484	(17,698)	746,160	(1,831)	4,415,644	(19,529)
Mortgage-backed securities	11,701,471	(243,773)	-	-	11,701,471	(243,773)
Asset-backed securities	-	-	21,172,780	(66,643)	21,172,780	(66,643)
Total temporarily impaired securities	$ 23,172,179	$ (274,144)	$ 21,918,940	$ (68,474)	$ 45,091,119	$ (342,618)

4. INVESTMENTS (Cont'd)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2015:						
Fixed-maturity investments:						
US Treasuries and government agencies	$ 8,728,075	$ (21,184)	$ -	$ -	$ 8,728,075	$ (21,184)
Corporate debt securities	10,584,422	(1,727,900)	1,004,315	(6,364)	11,588,737	(1,734,264)
Mortgage-backed securities	14,959,251	(262,345)	296,117	(2,012)	15,255,368	(264,357)
Asset-backed securities	18,925,068	(77,040)	21,369,565	(346,287)	40,294,633	(423,327)
Total temporarily impaired securities	$ 53,196,816	$ (2,088,469)	$ 22,669,997	$ (354,663)	$ 75,866,813	$ (2,443,132)

The following table sets forth the investment ratings of the Company's available-for-sale corporate fixed income securities as at December 31, 2016 and 2015. Ratings are assigned by Standard & Poor's or AM Best in instances where Standard & Poor's do not issue a rating.

2016	Amortized Cost	%
AAA	$ 46,638,526	57.9%
AA	30,771,541	38.2%
A	1,904,348	2.4%
BBB and below	1,199,682	1.5%
	$ 80,514,097	100%

2015	Amortized Cost	%
AAA	$ 59,135,445	56.0%
AA	32,737,406	31.0%
A	2,001,262	1.9%
BBB and below	11,768,632	11.1%
	$ 105,642,745	100%

As of December 31, 2016, 33 out of 80 fixed maturity securities were in unrealized loss positions compared to 38 out of 70 as of December 31, 2015. As at December 31, 2016, the Company's unrealized loss position for fixed maturity securities was $0.3 million compared to $1.5 million at December 31, 2015. 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. Eight of the securities have been in an unrealized loss position of $0.1 million for 12 months or more as of December 31, 2016 and there were eight securities in an unrealized loss position $0.4 million for 12 months or more as of December 31, 2015.

4. INVESTMENTS (Cont'd)

During the years ended December 31, 2016 and 2015, the Company recognized no losses on other than temporary impairments. There was no movement in the amount of OTTI recognized in other comprehensive income during such years.

As of December 31, 2016 and 2015, an immaterial amount of net unrealized gains was recorded in accumulated other comprehensive income on securities which have previously had a credit loss written off to earnings, respectively.

Proceeds from maturities and sales of investments in fixed-maturity securities available for sale during 2016 and 2015 were $73.8 million and $86.7 million, respectively. Gross gains of $0.01 million and $0.05 million in 2016 and 2015, respectively, and gross losses of $1.9 million and $0.14 million in 2016 and 2015, respectively, were realized on those sales. In 2016 and 2015, the Company did not sell any equity investments.

Major categories of net investment income are summarized as follows for the years ended December 31, 2016 and 2015:

	2016	2015
Interest from fixed-maturity securities	$ 2,024,810	$ 3,100,233
Interest from cash equivalents	82,996	9,272
Amortization	12,911	-
Investment expense	(392,173)	(361,620)
Interest on funds held	34,233	34,833
Net Investment income	$ 1,762,777	$ 2,782,718

5. FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS REINSURANCE

The underwriting of insured risks and the reporting of underwriting results to AORE are the responsibility of the primary insurers under the treaties. AORE does not "re-underwrite" the transactions ceded under the treaties. AORE's business model has always been that of a reinsurer in which it leverages and relies on the operations and reporting of the primary insurers. As a result of this model, AORE is highly dependent on the operating and reporting of the ceding companies. As the result of commutations in previous years, AORE is only assuming from ceding companies owned by a common group. AORE assesses the reasonableness of the ceding companies' reporting by i) discussing with primary insurers their earnings methodology, ii) reviewing the primaries' publicly available information regarding their accounting policies and methodologies, iii) comparing the primary reported information to the results of AORE's own basic model and iv) performing analytical reviews on AORE's underwriting results.

The following tables present a roll forward of AORE's premiums receivable on installment policies for the years ended December 31, 2016 and 2015:

	Years ended December 31,	
(dollars in thousands)	**2016**	**2015**
Premiums receivable beginning balance	$ 9,226	$ 10,904
Change in premiums receivable discount	348	1
Adjustments for changes in expected term of policies (including early terminations)	(854)	25
Foreign exchange movement	(855)	(479)
Premiums received	(1,265)	(1,225)
Premiums receivable ending balance	$ 6,600	$ 9,226

As of December 31, 2016 and 2015, AORE had $6.6 million and $9.2 million, respectively, of premiums receivable, which represents the present value of future expected premiums on contracts where installments are collected over the term of the policy. This amount is included within "Reinsurance balances receivable, net" on the Consolidated Balance Sheets, net of the related ceding commissions payable as of December 31, 2016 and 2015 of $2.8 million and $3.9 million, respectively. As of December 31, 2016 and 2015, $(0.1) million and $0.4 million, respectively, of paid losses (recoverable)/due to ceding companies was netted off "Reinsurance balances receivable, net" on the Consolidated Balance Sheets where the right of offset with a ceding company exists.

AORE experienced a number of downgrades, commencing in the middle of 2008, by both Moody's and S&P. On May 19, 2009, Moody's downgraded AORE to Ba3 and, at the same time, withdrew the rating at AORE's request. On August 31, 2009, S&P downgraded AORE's financial strength rating to BB with negative outlook and, at the same time, withdrew the rating at AORE's request. As a result of these downgrades, since 2008 certain of the ceding companies have a right under some of our treaty agreements to increase the ceding commission charged to AORE on the U.S. statutory unearned premium balance, as well as premiums payable after the downgrade. This increase applies to all financial guaranty and derivative policies covered by the relevant treaties. The additional ceding commissions charged to AORE have been paid or accrued and deferred and are being expensed in proportion to the earning of the remaining unearned premium, except for credit derivative policies where they are expensed as incurred. As of December 31, 2016 and 2015, additional ceding commissions due on the present value of premiums receivable on installment policies are netted off the premiums receivable within "Reinsurance balances receivable, net."

5. FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS REINSURANCE (Cont'd)

The accretion of premiums receivable discount is included in earned premiums in the Company's consolidated statements of operations. As of December 31, 2016 and 2015, the weighted average risk-free rate used to discount the premiums receivable was 3.31% and 3.29%, respectively. The weighted average expected period of future premiums used to estimate the premiums receivable was 7.1 years as of such dates, respectively. As of December 31, 2016 and 2015, the unearned premiums on these installment policies were $8.4 million and $11.4 million, respectively, and were included in "Unearned premiums" on the Consolidated Balance Sheets.

The following table presents the future amount of undiscounted premiums expected to be collected on installment policies and the period in which those collections are expected to occur. These amounts are based on AORE's estimates as of December 31, 2016, utilizing information as reported by the ceding companies, and any changes to the underlying information on insured obligations could cause actual results to be materially different from the amounts below:

		Premiums Expected to be collected
(dollars in thousands)		
Three Months Ended:		
March 31, 2017	$	192
June 30, 2017		300
September 30, 2017		155
December 31, 2017		252
Twelve Months Ended:		
December 31, 2018		787
December 31, 2019		739
December 31, 2020		685
December 31, 2021		627
Five Years Ended:		
December 31, 2026		2,021
December 31, 2031		1,036
December 31, 2036		601
December 31, 2041		416
December 31, 2046		294
December 31, 2051		174
After 2050		121

5. FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS REINSURANCE (Cont'd)

The following table presents the expected unearned premium revenue and the schedule of total expected future premium earnings revenue on upfront and installment policies. These amounts are based on the Company's estimates as of December 31, 2016, utilizing information as reported by the ceding companies, and any changes to the underlying information on insured obligations could cause actual results to be materially different from the amounts below:

	Change in Unearned Premiums	Accretion	Total Expected Future Earned Premiums
(dollars in thousands)			
Three Months Ended:			
March 31, 2017	$ 715	$ 41	$ 756
June 30, 2017	707	40	747
September 30, 2017	686	38	724
December 31, 2017	671	37	708
Twelve Months Ended:			
December 31, 2018	2,542	136	2,678
December 31, 2019	2,368	128	2,496
December 31, 2020	2,223	111	2,334
December 31, 2021	2,096	96	2,192
Five Years Ended:			
December 31, 2026	8,110	312	8,422
December 31, 2031	5,491	181	5,672
December 31, 2036	3,176	118	3,294
December 31, 2041	1,718	83	1,801
December 31, 2046	1,063	56	1,119
December 31, 2051	748	34	782
After 2051	408	11	419

Accelerated premium revenue for refunded obligations for the years ended December 31, 2016 and 2015, was approximately \$3.8 million and \$2.6 million, respectively, and represents the earning of the unearned premiums associated with the unscheduled prepayment of the underlying obligations.

The estimated premiums written for the years ended December 31, 2016 and 2015, were \$(0.5) million and \$0.1 million, respectively; see Note 10 – Commutations and Other Settlements for details of commutations in the period included within these numbers. Included in premiums written in 2016 and 2015 was estimated accretion of the premiums receivable of \$0.6 million and \$0.1 million, respectively. Accretion of the ceding commissions payable of \$0.6 million and \$0.1 million, respectively, was included in acquisition expenses for such years.

6. FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS CREDIT DERIVATIVES

The Company is required to recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheets and measure those instruments at fair value. The gain or loss on credit derivatives will change at each measurement date based on the underlying assumptions and information used in the estimate of fair value. Such fair value changes may not be indicative of ultimate claims. The credit derivative contracts AORE has reinsured require it to make payments upon the occurrence of certain defined credit events relating to an underlying obligation. Credit derivative exposures are substantially similar to financial guaranty insurance contracts and provide for credit protection against payment default, are generally held to maturity, and the unrealized gains and losses on derivative financial instruments will approach zero as the exposure approaches its maturity date, unless there is a credit impairment. Since these derivative instruments are considered a normal extension of the AORE's financial guaranty business, AORE monitors the risks associated with these policies in accordance with its normal risk management activities as discussed in Note 8 - Losses and Loss Expense Reserve.

The following table provides the components of "Net change in fair value of credit derivatives" included in the Company's Consolidated Statements of Operations related to our credit derivative policies:

	Years ended December 31, 2016	2015
Change in fair value of credit derivatives:		
Credit derivative premiums earned and receivable	$ 3,240,906	$ 1,388,781
Expenses on credit derivatives	(1,284,680)	(502,990)
Losses and loss adjustment expenses [(1)]	423,925	(427,240)
Realized gains and other settlements	2,380,151	458,551
Unrealized gain	8,162,195	30,070,079
Net change in fair value of credit derivatives	$ 10,542,346	$ 30,528,630

(1) See Note 10 – Commutations and Other Settlements, for details of the effect of the commutations on the above balances.

6. FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS CREDIT DERIVATIVES (cont'd)

Determining Fair Value

In accordance with ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined based on quoted market prices, if available. Financial guarantors sell credit protection in CDS form to financial institutions in a principal-to-principal market in which transactions are highly customized and negotiated independently. A CDS contract written by a financial guarantor differs from typical CDS contracts entered into by parties that are not financial guarantors because:

- CDS contracts written by financial guarantors are neither held for trading purposes (i.e., a short-term duration contract written for the purpose of generating trading gains) nor used as hedging instruments. Instead they are written with the intent to provide protection for the stated duration of the contract, similar to the financial guarantor's intent with regard to a financial guaranty contract.

- Financial guarantors are not entitled to terminate a CDS contract they write that is "in-the-money" and realize a profit on such a position.

- The liquidity risk present in most CDS contracts sold outside the financial guaranty industry, i.e., the risk that the CDS writer would be required to make cash payments, is typically not present in a CDS contract written by a financial guarantor. Terms are designed to replicate the payment provisions of financial guaranty contracts in that (a) losses, if any, are generally paid over time, and (b) the financial guarantor is generally not required to post collateral to secure its obligation under the CDS contract (the financial guarantor may be required to post collateral on their downgrade).

As a result of these differences, we believe there have been few, if any, relevant third-party exit transactions for CDS contracts written by financial guarantors. In the absence of a principal exit market, a financial guarantor determines the fair value of a CDS contract it writes by using internally developed models, as more fully discussed below.

Fair Value Modeling

AORE's CDS policies are not readily tradable as there is no active market for them. Therefore, AORE views its principal market as the financial guaranty insurance and reinsurance market, whose participants would hypothetically be able to assume this business if AORE were to hypothetically transfer a policy.

Each ceding company uses its own internal valuation models where market prices are not available. The primary insurers underwrite each of the transactions underlying the reinsurance contract and they have access to all the underlying data related to the transactions. In addition, they have sophisticated modeling capabilities and services (i.e. Loan Performance and Intex) that allow them to evaluate the performance of all of the underlying credits in a transaction. Given the contractual terms of AORE's reinsurance that limit its access to the terms of the underlying credit derivatives, which are highly individualized, and the underlying loan level data, AORE believes that an exit market participant would look to the information that is available from the ceding companies to determine the exit value of AORE's reinsurance contract, as discussed above. Therefore, AORE, in determining the fair value of derivative instruments, uses credit derivative contract valuations from its ceding companies as a key input. Management then assesses the reasonableness of the ceding companies' valuations by i) discussing with primary insurers their mark-to-market valuation methodology including the nature of changes in key assumptions, ii) reviewing the primaries' publicly available information regarding their mark-to-market process, including methodology and key assumptions, and iii) analyzing the movement of individual derivative policies compared to individual movements in outstanding par.

6. FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS CREDIT DERIVATIVES (cont'd)

Overall, the relationship between the widening of credit spreads and fair value is not a linear one due to the mix of policy types (duration, rating, and maturities) within the portfolio. Therefore, it is difficult to calculate the actual magnitude of any increase/decrease in the unrealized gain/(loss) with the movement of spreads alone. Additionally, there are many other assumptions that drive the ceding companies' ultimate fair value assessment namely asset recovery assumptions, correlation across asset assumptions, discount rate used, time to maturity, timing of default assumptions, and collateral posting requirements, where applicable. So while spreads are a significant driving factor in models of fair value, they are not the only variables. Changes in correlation and recovery assumptions can result in valuations moving more or less than the absolute movement of spreads. If it appears that the marks are consistent with macro spread movements, and general market trends and AORE believes that the modeling and assumptions that drive the modeling are reasonable (based on AORE's ceding company reviews and review of publicly available information), AORE will use the mark provided by the ceding company as a key input in the determination of the fair value of its reinsurance contracts on credit derivatives. These fair values are based on estimates and are sensitive to selected assumptions and changes to assumptions could lead to materially different results.

Fair values from the ceding companies' models may differ from values calculated by companies outside of the financial guaranty industry because, according to the ceding companies, the terms of the CDS contracts insured generally differ from other non-insured CDS contracts. Because of these terms and conditions, the fair value of the ceding companies' credit derivatives may not reflect the same prices observed in an actively traded market of CDS that do not contain terms and conditions similar to those observed in the financial guaranty market. These models and the related assumptions are continuously reevaluated by the ceding companies and enhanced, as appropriate, based upon improvements in modeling techniques and availability of market information.

As of December 31, 2016 and 2015, included in AORE's outstanding par exposure was $240.9 million and $750.4 million, respectively, of CDS that have been fair valued. These derivative instruments had a remaining average legal term to maturity of 23.3 years and 16.2 years as of December 31, 2016 and 2015, respectively.

The following tables set forth AORE's exposure to credit derivatives by major asset type as at December 31, 2016 and 2015:

December 31, 2016: **Asset Type** [1]	**Net Par Outstanding** ($ in millions)	**Weighted Average Credit Rating** [2]	**Remaining Weighted Average Legal Contract Term** [3]
HY	61.8	AA	9.77
IG	8.6	AAA	0.59
Other CDO	108.0	AAA	39.79
Total CDO	178.4		
RMBS	1.5	A	9.7
Other	61.0	A	11.41
Grand Total	$ 240.9		

6. FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS CREDIT DERIVATIVES (cont'd)

December 31, 2015: Asset Type (1)	Net Par Outstanding ($ in millions)	Weighted Average Credit Rating (2)	Remaining Weighted Average Legal Contract Term (3)
HY	466.4	AA	10.67
IG	44.6	AAA	0.96
Other CDO	149.5	A	39.64
Total CDO	660.5		
RMBS	21.3	BIG (4)	20.96
Other	108.9	A	6.96
Grand Total	$ 790.7		

(1) The definitions of the CDO types in the above table are as follows:

HY – Non-investment grade corporates, predominantly Collateralized Loan Obligations ("CLOs") backed by corporate loans.

IG – Investment grade corporate securities (predominantly corporate, may include limited asset-backed securities ("ABS")).

Other CDO – includes Double-Wrap CDO's, Emerging markets sovereign debt obligations and Multi-sector collateral, primarily CMBS.

(2) For the year ending December 31, 2016, these ratings are current as of February 24, 2017 (for the year ending December 31, 2015, ratings were as of March 7, 2016). These ratings are assigned by AORE based on management's judgment and take into consideration the ratings assigned by the ceding companies and the rating agencies. AORE undertakes no obligation to update its ratings, and such ratings do not constitute investment advice.

(3) Actual maturity of CDS is generally expected to be significantly less than the legal term.

(4) BIG – Below Investment Grade.

In compliance with the requirements of ASC 820, AORE considers its own non-performance risk when measuring the fair value of a liability.

There is no observable credit spread for AORE or AOG, and as such there is inherently a significant amount of judgment, subjectivity and uncertainty involved in the estimation of the adjustment for AORE's non-performance risk. Management has used inputs that reflect assumptions market participants may use in pricing AORE's creditworthiness. In determining AORE's own non-performance risk when measuring the fair value of a liability, AORE uses an implied market price for buying credit protection on AORE and a cash flow model, which models a CDS contract, to calculate a price based on those spreads and cash flows. AORE identifies comparable entities with active CDS markets to estimate credit spreads for AORE. Such identification focuses on the nature of risk positions (primarily public finance and structured products), ratings and approximate capital adequacy as depicted by publicly available information.

6. FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS CREDIT DERIVATIVES (cont'd)

Based on this information, as at December 31, 2016 and 2015, AORE estimated its credit spread to be approximately 940 and 2,316 basis points, respectively. An approximation of a CDS contract is made based on a 5-year insured CDS contract, an assumption of a 11 year weighted average life (8 years in 2015), and an assumption for par, coupon, duration and the appropriate discount rate based on a 5-year swap rate. AORE believes that these data points may be considered by hypothetical market participants in determining AORE's creditworthiness. AORE also considers other data points that may be relevant. These data points include transactions involving AORE's debt or preferred shares, if any, during the financial statement period. AORE assesses the interrelationship of market prices for these transactions with the results of applying the implied credit spreads described above. Furthermore, AORE considers the interrelationship between observed market prices for similar buyback transactions of other industry participants and their credit spreads and non-performance risk adjustments. These interrelationships are not always intuitive, nor are they necessarily consistent across all observed market participants. As a result, AORE has not directly incorporated these data points into the calculation of the non-performance risk adjustment, but rather has utilized them as a point of reference in assessing the reasonableness of the results of AORE's estimate of the non-performance risk adjustment. AORE will continue to evaluate the significance of any future transactions in the determination of our own credit worthiness.

The effect of applying this requirement of ASC 820 was a reduction in AORE's derivative liability at December 31, 2016 and 2015, of approximately \$5.0 million and \$34.6 million, respectively. As noted above, this calculation is based on estimates, involves a significant degree of management judgment and is sensitive to selected assumptions. Changes to the assumptions used in this valuation could lead to materially different results. For example, a change in AORE's estimated spread would have a significant impact on the amount of the adjustment for AORE's own non-performance risk. Adjustments to AORE's non-performance risk will be recorded in the periods in which they become known or estimable by AORE.

The following table summarizes the estimated changes in fair value of our credit derivatives assuming immediate changes in AORE's non-performance credit risk at specified levels at December 31, 2016:

Change in Credit Spreads	Estimated Net Fair Value of Derivative Liability	Impact of Change on Net Income
	($ in millions)	
900 basis point narrowing	$ (17.0)	$ (8.7)
500 basis point narrowing	(12.2)	(3.9)
100 basis point narrowing	(9.0)	(0.6)
Base scenario	(8.4)	-
100 basis point widening	(7.8)	0.6
500 basis point widening	(6.0)	2.4
900 basis point widening	(4.7)	3.7

AORE believes that the above hypothetical spread movements used in the sensitivity analysis of 100, 500, and 900 basis points are supported by previous large spread changes that have occurred during 2016 and 2015 in our primaries' spreads. Therefore, AORE believes it is not unreasonable for AORE to use these spread movements in the sensitivity analysis. This calculation is based on estimates, involves a significant degree of management judgment and is sensitive to selected assumptions. Changes to assumptions used in this valuation could lead to materially different results.

6. FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS CREDIT DERIVATIVES (cont'd)

Our credit derivative policies are classified as Level 3 in the fair value hierarchy in Note 7 since the inputs provided to us by our ceding companies and our own non-performance risk adjustments are from valuation models which place reliance on at least one significant unobservable input. Consistent with the requirements of ASC 820, we believe these models use observable market data when available.

The following table presents changes in the net credit derivative liabilities balance for which fair value was measured under Level 3 for the years ended December 31, 2016 and 2015:

Fair value measurement using significant unobservable inputs (Level 3)

	Years ended December 31, 2016	Years ended December 31, 2015
Balance, beginning of period	$ (16,778,892)	$ (46,696,287)
Total unrealized gains included in earnings [1]	8,162,195	30,070,079
Total realized gains included in earnings [2]	2,380,151	458,551
Net Cash Receipts [3]	(2,121,079)	(611,235)
Transfers in and/or out of Level 3	-	-
Balance, end of period	$ (8,357,625)	$ (16,778,892)
Change in unrealized gains and losses relating to assets held at the reporting date	$ (6,021,303)	$ 27,267,265

(1) Included within "Net change in fair value of credit derivatives".
(2) Included in "Realized gains and other settlements" within "Net change in fair value of credit derivatives".
(3) Net Cash Payments/ (Receipts) includes all ongoing contractual cash payments inclusive of payments to commute credit derivatives (see Note 10 – Commutations and Other Settlements for details of commutations in the years ended December 31, 2016 and 2015

7. 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, 2016 and 2015. 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, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
U.S. treasuries and government agencies	$ 19,007,978	$ 14,847,386	$ 4,160,592	$ -
Corporate debt securities	3,293,457	-	3,293,457	-
Mortgage-backed securities	17,531,739	-	17,531,739	-
Asset-back securities	40,692,112	-	40,692,112	-
Investments available for sale fixed maturity investments	80,525,286	14,847,386	65,677,900	-
Equity investments available for sale	6,652,662	1,275,209	5,377,453	-
Cash and Cash Equivalents	71,130,790	71,130,790		
Restricted Cash	48,306,033	48,306,033		
Financial Liabilities:				
Derivative Liabilities (1)	$ 8,357,625	$ -	$ -	$ 8,357,625

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

	Balance as of December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
U.S. treasuries and government agencies	$ 24,932,582	$ 18,421,460	$ 6,511,122	$ -
Corporate debt securities	11,850,384	-	2,554,135	9,296,249
Mortgage-backed securities	22,704,353	-	22,704,353	-
Asset-back securities	44,314,433	-	44,314,433	-
Investments available for sale fixed maturity investments	103,801,752	18,421,460	76,084,043	9,296,249
Equity investments available for sale	6,856,397	1,749,271	5,107,126	-
Cash and Cash Equivalents	31,130,939	31,130,939		
Restricted Cash	51,403,076	51,403,076		
Financial Liabilities:				
Derivative Liabilities (1)	$ 16,778,892	$ -	$ -	$ 16,778,892

(1) See Note 6 – Financial Guaranty Contracts Accounted for as Credit Derivatives for further disclosure on the application of ASC 820 to the Company's derivative liabilities.

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, 2016, all but one security was valued using the independent pricing services.

There were no transfers into or out of Level 1 or 2 during the years ended December 31, 2016 and 2015.

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

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

classified as Level 2, prices on money market funds and US treasuries were classified as Level 1, and valuations with no significant observable inputs were classified as Level 3 as of December 31, 2016 and 2015. 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. Because the investment in this security was valued using significant unobservable inputs, it is classified as Level 3 in the fair value hierarchy. There were no liabilities measured at fair value on a recurring basis using unobservable measurements other than those dealt with in Note 6 – Financial Guaranty Contracts Accounted for as Credit Derivatives.

The following table presents changes in the fixed maturity investment balance for which fair value was measured under Level 3 for the years ended December 31, 2016 and 2015:

	2016	2015
	Fixed maturity investments	Fixed maturity investments
Balance beginning of period	$ 9,296,249	$ 10,730,000
Unrealized (losses) gains included in OCI	-	(1,433,751)
Sales	(9,296,249)	-
Balance, end of period	$ -	$ 9,296,249
Change in unrealized gains relating to assets held at the reporting date	$ -	$ (1,688,126)

Equity investments

The Company's equity investments are 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 as reported by the fund manager. As such, the fair values of those funds are included in the Level 1 and Level 2 fair value hierarchy. 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.

As of December 31, 2016 and 2015, the fair value of the Company's $59.7 million redeemable Series A Preference Shares was approximately $9.9 million and $9.8 million, respectively. These fair value estimates are based on the present value of expected cashflows, together with the Company's best estimate of fair value of this instrument. The fair value measurement was classified as Level 3 in the fair value hierarchy.

The carrying amounts of certain assets and liabilities were adjusted to their respective fair value as of June 26, 2013 in conjunction with OGL's acquisition of voting control of AOG.

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

8. LOSSES AND LOSS EXPENSE RESERVE

The Company's loss and loss expense reserve as of December 31, 2016, represented case basis loss reserves and incurred but not reported reserves, or claim liability which includes a fair value adjustment of the financial guaranty reserves. Refer to Note 2 - Significant Accounting Policies for a description of the Company's accounting policy for insurance losses.

A summary of the movement in the provision for losses and LAE for the years ended December 31, 2016 and 2015 is presented in the following table:

	2016	2015
Losses and loss expense reserve		
Balance - Beginning of year	$ 249,204,344	$ 265,438,578
Less: reinsurance recoverable	(174,612,026)	(185,076,937)
Net Balance - Beginning of year	74,592,318	80,361,641
Reserves transferred in through loss portfolio transfer	-	5,632,352
Incurred related to:		
Current year	3,071,565	7,787,102
Prior Years	11,206,976	3,796,886
Total incurred	14,278,541	11,583,988
Net losses paid related to:		
Current year	(1,578,829)	(11,043,915)
Prior Years	(7,200,227)	(11,941,748)
Total Paid	(8,779,056)	(22,985,663)
Net balance - End of year	80,091,803	74,592,318
Add: reinsurance recoverable	196,596,105	174,612,026
Balance - End of year	$ 276,687,908	$ 249,204,344

For the year ended December 31, 2016, the Company incurred loss and LAE of $14.3 million. Incurred losses related to the Company's short-tailed property casualty business were $2.0 million. The majority of the losses from the property casualty business are from the current year, with $3.1 million development on the current accident year. The financial guaranty reinsurance business generated net incurred losses of $12.3 million in 2016 including fair value adjustments, primarily related to its reinsurance of obligations of Commonwealth of Puerto Rico (See note 18).

For the year ended December 31, 2015, the Company incurred loss and LAE of $11.6 million. Incurred losses related to the Company's short-tailed property casualty business were $4.0 million. The majority of the losses from the property casualty business are from the 2015 accident year, with $5.2 million development on the that year. The financial guaranty reinsurance business generated positive net incurred losses of $7.6 million in 2015 including fair value adjustments.

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

The Company's US RMBS exposure includes obligations backed by Alt-A, subprime, closed-end second mortgage loans and home equity lines of credit. Alt-A and subprime mortgage loans tend to be first lien products, while closed-end second and home equity lines of credit mortgages tend to be second lien products. The Company's estimate of loss reserves related to US RMBS exposure represents management's best estimate of total future losses for these exposures, but actual losses may differ materially from these estimates. The Company continues to monitor the performance of these exposures and will update estimates of loss as new information reflecting future performance is available and any changes will be recorded in the period in which they occur.

As of December 31, 2016 and 2015, the Company gave credit of $0.1 million and $2.8 million, respectively, in its case reserves for the benefit of expected recoveries in US RMBS transactions resulting from required repurchases by the originators due to contractual breaches of representations and warranties in the RMBS securitization agreements. The credit given for such repurchase recoveries at year-end 2016 and 2015 approximates the credit reported to the Company by the ceding companies in their ceded reserves, as that is the Company's best estimate of the remediation benefit at this time. The ceding companies performed detailed examinations of sampled RMBS loan files to determine whether the loans conformed to the representations and warranties made by the sponsors of the RMBS. The sampled loans were either in later stages of delinquency or had been charged off. Those loans that showed a material breach of representations and warranties and were put back to the sponsors for repurchase. Through December 31, 2016 the ceding companies have caused sponsors providing representations and warranties to pay, or agree to pay, or to terminate or agree to terminate insurance protection on future projected losses in respect of their representation and warranty liabilities for transactions in which the Company has provided reinsurance. The ceding companies are no longer actively pursuing sponsors where they do not have such an agreement. Most of the amount projected to be received pursuant to existing agreements with sponsors benefits from eligible assets placed in trusts to collateralize the sponsor's future reimbursement obligation. Thus, the Company views the inclusion of the credit taken by the primaries in its own case reserves to be appropriate and generally assumes its proportionate share of the credit given by the ceding companies when establishing its case reserves as of year-end 2016 and 2015.

To determine the adequacy of its aggregate reserves, the Company considers the loss reserves established by its ceding companies for the exposures it has reinsured as well as the methodologies used by the ceding companies to calculate such ceded loss reserves. To further evaluate the ceded reserve amounts established by the ceding companies, the Company uses its own expected loss forecasting methodologies. Ultimately, the Company decides on an individual credit-by-credit basis whether to establish the ceding company's reserve as its own or to use its own forecast methodology to determine the reserve for such credit. Specifically regarding RMBS, we established a maximum threshold amount between the reserve calculated using our model and the primaries' ceded reserve. If our calculated reserve was less than the primaries' reserve plus the threshold, we used the primaries' reserve as our reserve for each RMBS deal as of Q4 16. If the threshold was exceeded, then we used our reserve. As of December 31, 2016 and 2015, the Company's recorded loss and LAE reserves for financial guaranty contracts are $16.3 million (2015: $3.4 million) higher than the reserves reported by the primaries.

The Company uses one of two approaches to perform its own forecast of expected losses. The first approach is a statistical expected loss approach, which considers the likelihood of alternative outcomes. The statistical expected loss is a function of: (i) the net par outstanding on the credit; (ii) internally developed historical default assumptions (taking into consideration internal ratings and remaining term to maturity of an obligation); (iii) internally developed loss severities; and (iv) a discount factor. This approach is referred to by the Company as the probabilistic expected loss ("PEL") modeling approach. The loss severities and default assumptions are based on rating agency information, are specific to each bond type and are established and approved by management. For certain credit exposures, the Company's surveillance activities may provide information relevant to adjust the estimate of the statistical expected losses. As such, the default probability or loss severity for such exposures under certain probabilistic scenarios may be adjusted based on the judgment of senior management.

The second approach entails the use of more precise estimates of expected net cash outflows (future claim payments, net of potential recoveries, expected to be paid to the holder of the insured financial obligation). The Company's risk management staff considers the likelihood of alternative possible outcomes and develops alternative loss

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

scenarios, in conjunction with a review of historical performance data of the collateral pools. In this approach, a probability-weighted expected loss estimate is developed based on assigning probabilities to multiple net claim payment scenarios and applying an appropriate discount factor. For RMBS, the Company takes into account the first loss protective features inherent in the structure of the insured exposure, collateral losses to date, current delinquency rates and loan product characteristics such as loan-to-value ratio and credit score. The first loss protection in most of the Company's RMBS transactions is provided by excess spread, overcollateralization, subordination, and in some cases mortgage pool insurance.

A loss reserve is recorded for the excess, if any, of estimated expected losses (net cash outflows) over unearned premium reserve ("UPR"). For certain policies, estimated potential recoveries exceed estimated future claim payments because all or a portion of such recoveries relate to claims previously paid. The expected net cash inflows for these policies are recorded as a recoverable asset.

The discount factor applied is based on a risk-free discount rate corresponding to the remaining expected weighted-average life of the exposure or based on multiple risk-free discount rates related to the timing of individual claims payments. The discount factors are updated for the current risk-free rates each reporting period. As of December 31, 2016, the Company used risk free rates ranging from 0.44% to 3.06% to discount reserves for loss and loss adjustment expenses. As of December 31, 2015, the Company used risk free rates ranging from 0.63% to 3.29% to discount reserves for loss and loss adjustment expenses.

The Company establishes reserves that it believes are adequate to cover the present value of ultimate liability for losses and loss adjustment expenses, net of UPR. These reserves are based on estimates and may vary materially from actual results.

The Company also identifies problem credits through information provided by the ceding companies at least on a quarterly basis. Such information generally consists of surveillance and underwriting reports and quarterly correspondence and/or conference calls with the ceding companies' analysts. The Company supplements this input with their own research to identify and assess the status of individual credits. Research performed includes reviews of rating agency and fixed income research publications and analysis of historical performance data. Each of the ceding companies maintains a "watch list" for credits that have been identified as requiring a greater than usual level of ongoing scrutiny and/or intervention. The ceding companies notify the Company when any ceded exposure has been placed on such a watch list.

The Company maintains its own Watch List to identify those transactions requiring increased monitoring. The Company typically places a transaction on the Watch List if the ceding company places a transaction on its watch list, and the Company generally employs a mapping of each watch list category of each ceding company to the Company's own Watch List categories. The Company also surveys market segments on an as-needed basis based on market trends, and may add transactions to the Watch List as a result of such survey even if the ceding company has not added the transaction to its watch list.

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

As of December 31, 2016 and 2015, the Company's Watch List definitions are as follows:

- Category 1: Transactions that are investment grade and for which future losses still seem unlikely, but with a material deterioration in some aspect. Transactions may be in Category 1 where, for example, there has been a;
    - Breach of a material performance trigger or covenant
    - Material deterioration in the financial health of the issuer, servicer, collateral manager or other important party
    - Material downgrade of internal or external credit ratings from their original level
    - Material deterioration in macroeconomic factors (such as industry trends or asset values)

  Investment grade transactions on which liquidity claims have been paid are in this category. Active monitoring and intervention is employed by the ceding company, with internal credit ratings reviewed at least quarterly.

- Category 2: Below investment grade transactions showing sufficient deterioration to make future losses possible, but for which none are currently expected. Intense monitoring and intervention is employed by the ceding company, with internal credit ratings reviewed at least quarterly.

- Category 3: Below investment grade transactions for which future losses are expected but for which no claims (other than liquidity claims) have yet been paid. Intense monitoring and intervention is employed by the ceding company, with internal credit ratings reviewed at least quarterly.

- Category 4: Below investment grade transactions for which future losses are expected and on which claims (other than liquidity claims) have been paid. Intense monitoring and intervention is employed by the ceding company, with internal credit ratings reviewed at least quarterly.

The Company generally expects "future losses" on a transaction when the Company believes there is more than a 50% chance that, on a present value basis, it will pay more claims over the remaining life of that transaction than it will ultimately have reimbursed. A "liquidity claim" is a claim that the Company expects to be reimbursed within one year. (Excluded from consideration are small, immaterial losses or claims not indicative of the performance of the transaction generally.)

Each transaction in Category 3 or 4 of the Watch List is generally reviewed quarterly to determine whether material changes are noted by the ceding company or by the Company. If material adverse changes are identified, surveillance reports are requested from the ceding company and discussions are held to assess the deterioration and outlook for the credit.

The Company may have transactions in Categories 1 or 2 on the Watch List or transactions not on the Watch List for which the Company has established loss reserves based on its Probabilistic Expected Loss ("PEL") modeling analysis. These transactions are typically not on the ceding primary's watch list and are assigned reserves in the Company's PEL modeling primarily due to low premium pricing, not due to poor transaction performance. Further surveillance and modeling may result in the Company placing these transactions on the Watch List or downgrading the assigned category. In addition, the Company may have transactions for which it projects prior claim recoveries that are not on the Watch List because they have no remaining par outstanding. Such transactions are reflected in the tables below.

The Company does not perform loss mitigation activities and instead relies on the loss mitigation efforts of the ceding companies that report the Company's proportionate share of the expenses incurred and liability arising from such activities. The Company pays the ceding companies a ceding commission for all policies reinsured. The ceding commission represents the Company's portion of the cost to the ceding companies to write the transaction, perform ongoing surveillance and to undertake loss mitigation activities. Ceding commissions are deferred and expensed as each policy's exposure matures and are included as an asset in deferred policy acquisition costs and as acquisition expenses in the statement of operations. The Company reports loss expenses associated with claims as a liability in

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

losses and loss expense reserves on the Consolidated Balance Sheets and in loss and loss adjustment expenses in the Consolidated Statements of Operations.

The following table provides information about the financial guaranty policies and related loss reserves in each of the Company's Watch List categories as of December 31, 2016:

(dollars in millions)	Deals not on watch List	Surveillance Categories: Category 1	Category 2	Category 3	Category 4	Total
Number of policies	18	12	22	8	35	95
Remaining weighted average contract period (in yrs)	23	21	13	16	19	
Insured contractual payments outstanding:						
Principal	$ 21.7	$ 134.0	$ 103.2	$ 115.1	$ 44.1	$ 418.1
Interest	12.0	75.5	55.6	71.1	11.8	226.0
Total	$ 33.7	$ 209.5	$ 158.8	$ 186.2	$ 55.9	$ 644.1
Gross claim liability	$ 1.0	$ 0.7	$ 5.5	$ 38.1	$ 9.3	$ 54.6
Less:						
Gross potential recoveries	(1.0)	-	(2.0)	(0.2)	(0.8)	(4.0)
Discount, net	(0.1)	(0.1)	(0.5)	(1.2)	(1.5)	(3.4)
Net claim liability	$ (0.1)	$ 0.6	$ 3.0	$ 36.7	$ 7.0	$ 47.2
Unearned premium revenue (1)	0.6	0.7	1.1	1.4	0.2	$ 4.0
Premium deficiency						$ 0.7
Net claim liability reported in the Balance Sheet related to financial guaranty						$ 43.9

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

The following table provides information about the financial guaranty policies and related loss reserves in each of the Company's Watch List categories as of December 31, 2015:

(dollars in millions)	Deals not on watch List	Surveillance Categories Category 1	Category 2	Category 3	Category 4	Total
Number of policies	25	18	30	11	36	120
Remaining weighted average contract period (in yrs)	23	17	17	20	21	
Insured contractual payments outstanding:						
Principal	$ 27.5	$ 102.8	$ 274.0	$ 52.4	$ 41.5	$ 498.2
Interest	13.3	70.5	145.2	36.6	11.6	277.2
Total	$ 40.8	$ 173.3	$ 419.2	$ 89.0	$ 53.1	$ 775.4
Gross claim liability	$ 1.4	$ 1.3	$ 9.4	$ 17.7	$ 10.0	$ 39.8
Less:						
Gross potential recoveries	(1.3)	-	(1.3)	(1.3)	(2.7)	(6.6)
Discount, net	(0.1)	(0.2)	(0.6)	(0.8)	(1.1)	(2.8)
Net claim liability	$ (0.0)	$ 1.1	$ 7.5	$ 15.6	$ 6.2	$ 30.4
Unearned premium revenue [1]	0.7	1.0	2.0	0.4	0.2	$ 4.3
Premium deficiency						$ 0.5
Net claim liability reported in the Balance Sheet related to financial guarantee						$ 26.6

(1) On policies with a loss reserve but excluding those policies with a recoverable as of December 31, 2016 and 2015, respectively.

Categories 1 to 4 in the above table include all financial guaranty contracts on the Company's Watch List at December 31, 2016 and 2015, whether or not they have reserves on them. The column entitled "Deals not on Watch List" includes only financial guaranty exposures for which the Company has established reserves. Policies written in credit derivative form are not included in the above tables. Due to rounding, the numbers in the above tables may not add up to the totals.

8. 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, 2016, net of reinsurance. The information about incurred and paid claims development for the 2013 to 2015 years, and the average annual percentage payout of incurred claims by age as of December 31, 2016, is presented as required supplementary information. The below tables begin at June 26, 2013. This was the date AOG became part of OGL, whose U.S. subsidiaries write short duration property and casualty business. Claims count information is not reflected in the below tables. Due to the role of the U.S subsidiaries in the non standard auto and the reinsurance business this information is not available.

(dollars in thousands)	Incurred loss and allocated loss adjustment expenses, net of reinsurance For the Years Ended December 31,			
	(unaudited)	(unaudited)	(unaudited)	
Accident Year	**2013**	**2014**	**2015**	**2016**
2006	(24)	-	-	-
2007	(10)	8	6	(8)
2008	(113)	(9)	3	5
2009	106	(116)	38	6
2010	(720)	(405)	(156)	105
2011	(1,524)	(2,034)	(149)	(14)
2012	(1,858)	(398)	(741)	(154)
2013	37,936	4,060	(614)	(231)
2014	-	34,792	424	(638)
2015	-	-	5,182	(106)
2016	-	-	-	3,072
			3,991	2,037

(dollars in thousands)	Cumulative paid claims and allocated loss adjustment expenses, net of reinsurance For the Years Ended December 31,			
	(unaudited)	(unaudited)	(unaudited)	
Accident Year	**2013**	**2014**	**2015**	**2016**
2006	4	-	-	-
2007	5	14	-	(2)
2008	50	18	10	30
2009	761	214	85	12
2010	1,521	537	120	170
2011	3,978	1,816	436	173
2012	10,023	5,772	1,498	517
2013	15,872	14,804	4,523	2,009
2014	-	21,080	7,648	3,324
2015	-	-	3,392	1,316
2016	-	-	-	1,980
			17,711	9,528

9. OUTSTANDING FINANCIAL GUARANTY EXPOSURE

A portion of the Company's business consists of financial guaranty reinsurance, the purpose of which is to indemnify a primary financial guarantor, referred to as the "primary insurer" or "ceding company," against the portion of any loss it may sustain under financial guaranty policies it has ceded to the Company. The Company reinsures policies covering both U.S. and international exposures. The Company's portfolio as of December 31, 2016 was diversified by geographic and bond market sector, with no single obligor representing more than 2.7% of the Company's total outstanding ("OS") par insured.

The following table presents the Company's net par outstanding by credit sector and type of guaranty as of December 31, 2016 and 2015:

	2016		2015	
(dollars in millions)	**Total OS Par**	**% of Total**	**Total OS Par**	**% of Total**
US Public Finance				
General Obligation and Lease	$ 887	24.8	$ 1,402	26.8
Tax backed	191	5.3	208	4.0
Transportation	269	7.5	515	9.9
Healthcare	244	6.8	340	6.5
Utility	261	7.3	372	7.1
Higher Education	24	0.7	42	0.8
Other	62	1.7	67	1.3
Escrowed	564	15.8	546	10.4
Total US Public Finance	$ 2,502	70.1%	$ 3,492	66.8%
US Structured Finance				
Commercial ABS and CDOs	$ 122	3.4	$ 470	9.0
RMBS	82	2.2	118	2.2
Other Structured Finance & Corporate	50	1.4	50	1.0
Total US Structured Finance	$ 254	7.0%	$ 638	12.2%
International				
Asset-backed	$ 167	4.7	$ 338	6.5
Public Finance	309	8.7	361	6.9
Investor Owned Utilities and Other	339	9.5	397	7.6
Total International	$ 815	22.9%	$ 1,096	21.0%
Total	$ 3,571	100.0%	$ 5,226	100.0%

Due to rounding the numbers in the above tables may not add up to the totals.

9. OUTSTANDING FINANCIAL GUARANTY EXPOSURE (cont'd)

Net outstanding par reinsured at December 31, 2016 and 2015, by geographic location was as follows:

	2016		2015	
(dollars in millions)	OS Par	%	OS Par	%
International	$ 815	22.8	$ 1,096	21.0
Multi-state	246	6.9	629	12.0
California	533	14.9	704	13.5
New York	181	5.1	324	6.2
Illinois	175	4.9	347	6.6
Massachusetts	272	7.6	298	5.7
Other U.S. States	1,349	37.8	1,828	35.0
Total	$ 3,571	100.0%	$ 5,226	100.0%

The above outstanding par amounts do not include interest, which is an additional exposure to the company and could be significant. The above outstanding par amounts are also inclusive of outstanding par on credit derivative policies. See Note 6 – Financial Guaranty Contracts Accounted for as Credit Derivatives for further information on the outstanding par relating to credit derivative policies.

10. COMMUTATIONS AND OTHER SETTLEMENTS

Effective September 30, 2016, AORE entered into a Commutation, Reassumption and Release Agreement with one of its financial guaranty ceding companies. This agreement provided, among other things, for AORE to receive a $978,046 net commutation payment to terminate the reinsurance with respect to a certain policy previously assumed, with par in-force of $4.5 million (the "Released Risks"). In return, each party was released from all liabilities and obligations with respect to the Released Risks. There was no effect of this agreement on AORE's results of operations as there was no net change in fair value of derivatives, as this policy is classified as derivative liability in AORE and was carried at a $nil value.

The Company did not enter into any commutations in 2015.

11. SEGMENT INFORMATION

The determination of reportable segments is based on how management monitors the Company's underwriting operations. Management monitors the performance of its underwriting operations based on the markets and customers served and the type of accounts written. The Company is currently organized into three operating segments: property/casualty insurance and reinsurance, financial guaranty and corporate/other. All product lines fall within these classifications. The property/casualty segment provides insurance and reinsurance primarily related to US short-tail personal lines. The financial guaranty segment includes AORE's financial guaranty operations which are in run-off and which the Company has no plans to re-enter. During the year ended December 31, 2016, our major customers were the following primary monoline financial guaranty insurers all owned by a common group: Assured Guaranty Corp., or "Assured Guaranty", Assured Guaranty Municipal Corp. (formerly Financial Security Assurance Inc.), or "AGM", Assured Guaranty (Europe) Ltd., or "AGE" (formerly Financial Security Assurance (U.K.) Limited) and together with AGM, "FSA". As the Company does not manage its assets by segment, investment income, interest expense and total assets are not allocated to individual reportable segments.

11. SEGMENT INFORMATION (cont'd)

The following tables provide a summary of the segment results.

(dollars in thousands)	December 31, 2016 Property/Casualty	Financial Guaranty	Corporate	Total
Net premiums earned	$ 3,600	$ (506)	$ -	$ 3,094
Net change in fair value of credit derivatives	-	10,542	-	10,542
Losses and loss adjustment expenses	(2,037)	(12,242)		(14,279)
Acquisition expenses	(896)	244	-	(652)
	-	-	-	-
Underwriting gain (loss)	667	(1,962)	-	(1,295)
Fee income	12,091	-	-	12,091
Net investment income	-	-	1,763	1,763
Other income	-	-	7	7
Net realized losses on sales of investments	-	-	(1,905)	(1,905)
Fair value adjustment	-	-	1,958	1,958
Operating expenses	(9,740)	(7,236)	520	(16,456)
Interest expense	-	-	(3,265)	(3,265)
Amortization expense	-	-	-	-
Other expense	-	-	(398)	(398)
Income tax	(7)	-	-	(7)
Net income (loss) before non controlling interest	$ 3,011	$ (9,198)	$ (1,320)	$ (7,507)

(dollars in thousands)	December 31, 2015 Property/Casualty	Financial Guaranty	Corporate	Total
Net premiums earned	$ 6,399	$ 25	$ -	$ 6,424
Net change in fair value of credit derivatives	-	30,529	-	30,529
Losses and loss adjustment expenses	(3,991)	(7,593)	-	(11,584)
Acquisition expenses	(901)	36	-	(865)
Underwriting gain (loss)	1,507	22,997	-	24,504
Fee income	12,517	-	-	12,517
Net investment income	-	-	2,783	2,783
Other income	-	-	253	253
Net realized gains on sales of investments	-	-	(88)	(88)
Fair value adjustment	-	-	2,408	2,408
Operating expenses	(9,075)	(5,983)	(869)	(15,927)
Interest expense	-	-	(5,376)	(5,376)
Amortization expense	(2,238)	-	-	(2,238)
Other expense	-	-	(280)	(280)
Income tax	(7)	-	-	(7)
Net income (loss) before non controlling interest	$ 2,704	$ 17,014	$ (1,169)	$ 18,549

12. 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.

Future minimum lease payments as of December 31, 2016 are as follows:

2017	$	258,514
2018	$	193,885

As of December 31, 2016, there were no lease commitments for 2019 and beyond. See subsequent event Note 26 for a lease entered into in 2017.

13. REDEEMABLE SERIES A PREFERENCE SHARES

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

On May 12, 2009, the Board determined to suspend payment of dividends on the Series A Preference Shares; therefore, during the years ended December 31, 2016 and 2015, there were no dividends declared or paid. The payment of preference share dividends is classified as interest expense. On March 10, 2010, AOG completed a tender offer for the Series A Preference Shares, pursuant to which 15,300 shares, or 20.40% of the 75,000 shares previously outstanding were validly tendered. The Company accepted for purchase all such Series A Preference Shares that were validly tendered as of the applicable expiration date and paid $3.8 million for all such Series A Preference Shares realizing a gain of $11.5 million. On August 8, 2016, American Overseas Group commenced a tender offer for any and all of its outstanding Series A Non-Cumulative Preference Shares for cash at a price not to exceed $200 for each $1,000 principal liquidation amount of the Series A Shares validly tendered and accepted by the Company. In order to be purchased in the tender offer, Series A Shares were to be tendered on or before September 2, 2016, and accepted by the Company. Of the 59,700 outstanding shares, 1,100 shares were tendered for a redemption value of $220,000. After expiration of the tender, 58,600 Series A Non –Cumulative Preference Shares remain outstanding as of December 31, 2016.

The Company is not permitted under the terms of the Series A Preference Shares to pay common share dividends or repurchase common shares unless full dividends for the latest completed dividend period on all Series A Preference Shares have been paid. The Company has no plans to liquidate, pay common share dividends or to repurchase any of its common shares.

See Note 3 for discussion of the establishment of an irrevocable trust for the benefit of holders of the Series A Preference Shares.

14. NONCONTROLLING INTEREST

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

Following the settlement of previous repurchases, 373.01 shares of Class B Preference Shares remained outstanding at December 31, 2016 and 2015. The remaining value of the Class B Preference Shares of $6.1 million is included as a "Noncontrolling Interest" in the Company's Consolidated Balance Sheets as of December 31, 2016 and 2015.

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.

If declared by the board, dividends are payable on the Class B Preference Shares every 90 days at a rate of 6.276%. 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. On August 12, 2014 AORE reinstituted the dividends on its Class B preference shares and the board seats available to the Class B Preference Shares were eliminated.

In 2015, the Company paid $2,341,011 in dividends to the Class B preference shareholders.

A U.S. subsidiary of the Company issued 800 shares of Series B Preferred Stock ("Series B Shares") in 2014. The Series B Shares were perpetual, had a par value of $1,000 per share and paid cumulative dividends of 10% per annum. All of the Series B Shares were redeemed in 2014.

15. SHARE CAPITAL

As at December 31, 2016 and 2015, authorized common share capital was $9,000,000. As at December 31, 2016 and 2015, 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, 2015 and 2016:

	Outstanding share capital	Outstanding Shares	Treasury Shares	Issued Shares	Unissued Shares
As at December 31, 2014	**$ 4,398,897**	**43,989**	**12,280**	**56,269**	**33,731**
Share options exercised during the year	25,700	257	-	257	(257)
Issued restricted share units during the year	24,300	243	-	243	(243)
Shares issued in lieu of cash for director's fees	34,600	346	(346)	-	-
Impact of amalgamation with OGL	(106,997)	(1,070)	1,070	-	-
Treasury shares cancelled	-	-	(12,962)	(12,962)	12,962
As at December 31, 2015	**$ 4,376,500**	**43,765**	**42**	**43,807**	**46,193**
Issued restricted share units during the year	26,300	263	-	263	(263)
Shares issued in lieu of cash for director's fees	51,400	514	-	514	(514)
As at December 31, 2016	**$ 4,454,200**	**44,542**	**42**	**44,584**	**45,416**

16. 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 247,000 adjusted to 2,470 with reverse share split, and then increased to 4,500 by official vote of the shareholders at the 2015 Annual General Meeting. 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, 2016, outstanding awards under the AOG Plan consisting of 1,226 share options and 391 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 seventh 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. The exercise price of the options at December 31, 2016 ranges from $675 to $1,520. Restricted share units vest in equal annual installments over a four-year period.

16. SHARE BASED COMPENSATION (cont'd)

Stock Options

The Company has used the Black-Scholes option pricing model to estimate the fair value of stock options using the following weighted average assumptions during the period ending December 31, 2015. In 2016 there were no stock options awarded:

	2015
Dividend yield	0%
Expected volatility	346.00%
Risk-free interest rate	1.50%
Expected life of options (in years)	4.0
Weight-average grant-date fair value	$ 850.00

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, 2016, the weighted average grant date fair value for options issued subsequent to January 1, 2006 was $848.56. The Company expensed $0.2 million and $0.1 million in compensation expense related to the stock options for each of the years ended December 31, 2016 and 2015 respectively. As at December 31, 2016, there was $0.6 million of unrecognized compensation expense related to the stock options granted subsequent to January 1, 2006, which is expected to be recognized over the weighted average remaining service period of 2.95 years. For both the twelve month periods ended December 31, 2016 and 2015, 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.

16. SHARE BASED COMPENSATION (cont'd)

The following tables summarize the stock option activity for the years ended December 31, 2016 and 2015:

Stock option activity

	Number of Shares		Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life		Aggregate Intrinsic Value (1)
Year ended December 31, 2016						
Options						
Outstanding - beginning of year	1,226	$	876.74			
Granted	-		-			
Exercised	-		-			
Forfeited	-		-			
Outstanding - end of year	1,226		876.74	8.19	$	870
Exercisable - end of year	474	$	919.17	6.99	$	870

	Number of Shares		Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life		Aggregate Intrinsic Value (1)
Year ended December 31, 2015						
Options						
Outstanding - beginning of year	647	$	4,924.31			
Granted	1,000		850.00			
Exercised	(256)		893.32			
Forfeited	(165)		12,056.46			
Outstanding - end of year	1,226		876.74	6.20	$	36,250
Exercisable - end of year	176	$	1,388.86	2.82	$	9,650

1) The aggregate intrinsic value was calculated based on the market value of $702.00 and $875.00 as at December 31, 2016 and 2015, respectively, and is calculated as the difference between the market value and the exercise price of the underlying options.

16. SHARE BASED COMPENSATION (cont'd)

Restricted Share Units

The following table summarizes the restricted share unit activity for the years ended December 31, 2016 and 2015:

Restricted Share Units

	Number of share units	Weighted average grant date fair value per share
Year ended December 31, 2016		
Restricted Share Units		
Non-vested - beginning of year	672	$ 1,586.03
Granted	20	700.00
Vested	(226)	1,564.56
Forfeited	(75)	1,538.00
Non-vested - End of year	391	$ 1,561.97

	Number of share units	Weighted average grant date fair value per share
Year ended December 31, 2015		
Restricted Share Units		
Non-vested - beginning of year	758	$ 1,600.91
Granted	180	1,495.00
Vested	(266)	1,564.30
Forfeited	-	
Non-vested - End of year	672	$ 1,586.03

The Company expensed $0.3 million and $0.4 million in compensation expense related to the restricted share units for the years ended December 31, 2016 and 2015 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, 2016, there is unrecognized compensation expense related to the non-vested restricted share units under the AOG Plan of $0.4 million, which will be recognized over the weighted average remaining service period of 1.58 years.

17. 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, 2016 and 2015, there were 1,166 and 1,696, 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, 2016 and 2015:

	2016	2015
Net (loss) income available to common shareholders	$ (7,506,577)	$ 16,207,480
Basic weighted-average shares	44,371	43,573
Effect of stock options	9	172
Effect of restricted share units	1	16
Diluted weighted-average shares	44,381	43,761
Basic (loss) income earnings per share	$ (169.18)	$ 371.96
Diluted (loss) income earnings per share	$ (169.14)	$ 370.36

18. RISKS AND UNCERTAINTIES

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

AOG is a holding company and therefore its liquidity, both on a short-term basis (for the next twelve months) and a long-term basis (beyond the twelve months), is largely dependent upon (1) the ability of its subsidiaries to pay dividends or make other payments to AOG and (2) its ability to access debt and equity markets, which is unlikely in the near term given current market conditions and AOG's current share valuation. AOG's principal uses of liquidity are for payment of operating expenses, debt service on the senior notes payable and capital investments in its subsidiaries. As of December 31, 2016, AOG has $2.4 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 subsidiaries' 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, the amounts required to be held in trust for the benefit of its ceding companies, adverse market changes, insurance regulatory changes, changes in general economic conditions beyond the next twelve months and 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.

18. RISKS AND UNCERTAINTIES (cont'd)

AOG's property/casualty segment generates substantial cash flows from its fee-based model. The principal uses of liquidity for those entities are the payment of operating expenses, debt service on subsidiary notes and capital investment in property/casualty subsidiaries. The property/casualty subsidiaries are highly leveraged through their reinsurance arrangements, and disputes with reinsurers could severely impact the liquidity of these subsidiaries. The property/casualty subsidiaries attempt to mitigate this exposure by holding collateral from their reinsurers. The subsidiaries held $194.5 million of collateral compared to $171.6 million of balances at December 31, 2016 and such amounts are included in reinsurance balances received net on the consolidated balance sheet.

At December 31, 2016, the Company had $206.6 million of cash and investments of which $130.3 million was held in trust for the benefit of our ceding companies and $0.7 million in escrow accounts, leaving $75.6 million cash and investments available to support ongoing business. See Note 3 – Pledged Assets, for further information regarding these trust accounts. Currently, losses are paid out of AORE's unrestricted cash rather than AORE's trust accounts which reduces available cash until the trust accounts are adjusted. AORE is not permitted to withdraw funds from these trust accounts without the ceding companies' express permission. The ceding companies are allowed to withdraw funds from the trust account under certain conditions as specified in the trust agreements.

Further increases in loss reserves and credit impairments would require AORE to deposit additional collateral in the applicable trust account(s) and resulting claims payments in respect of those losses and impairments would increase cash outflows and could decrease the size of AORE's investment portfolio, in turn decreasing income from investments.

The principal sources of AORE's liquidity are premiums net of acquisition expenses, scheduled investment maturities, and net investment income. The principal uses of AORE's liquidity are for the payment of operating expenses, claims, ceding commissions, and for purchases of new investments and more recently funding commutation agreements. The Company believes that AORE's expected operating liquidity needs can be funded from its operating and investing cash flows for the next twelve months. See Note 14 – Noncontrolling Interest and Note 27 – Statutory Requirements, for further information regarding AORE's ability to pay dividends.

Some of the exposures the Company reinsures have been written by ceding companies as credit derivative contracts rather than financial guaranty insurance policies. Traditional financial guaranty insurance provides an unconditional and irrevocable guaranty of payment to the holder of a municipal finance or structured finance obligation of principal and interest on that obligation in the event of a non-payment by the issuer. In contrast, credit derivatives provide protection from the occurrence of specified credit events, which frequently include non-payment of principal and interest ("failure to pay"), but may also include other terms such as settlement of individual referenced collateral losses in excess of policy specific deductibles or subordination amounts. The credit derivatives that protect against failure to pay usually have settlement terms that require the ceding company to pay interest and principal shortfalls as they occur (referred to as "pay-as-you-go"). The Company may be deemed to have assumed reinsurance on credit derivative exposures that have other than "pay-as-you-go" terms. Although the Company considers the occurrence of such payments to be unlikely, the Company is at risk of unanticipated loss payments under insured credit derivative policies that could have an adverse effect on the Company's liquidity. Further, the ceding companies write credit derivatives that are governed by standard International Swaps and Derivatives Association ("ISDA") documentation which can include various events of default related to the primary insurer itself, such as insolvency of or a failure to pay by the primary insurer on any credit derivative with a particular counterparty, which would not typically trigger a payment obligation under traditional financial guaranty. If a credit derivative (or group of credit derivatives) is terminated upon an event of default, the primary could be required to make a mark-to-market payment(s) as determined under the ISDA documentation. While the Company does not believe that its reinsurance contracts obligate it to indemnify the primary insurers for mark-to-market payments resulting from their default under the ISDA documentation, the primary insurer or its regulator may allege that the Company is liable for its pro rata share of such payments and withdraw funds to pay such claims from the trust account for the benefit of that primary insurer.

18. RISKS AND UNCERTAINTIES (cont'd)

The underwriting of insured risks and the reporting of underwriting results to the Company are the responsibility of the primary insurers under the treaties. The Company leverages and relies on the operations and reporting of the primary insurers. As a result of this model, the Company is highly dependent on the operating and reporting of the ceding companies. The ceding companies often use complex financial models, which have been internally developed, to produce their results. The Company performs its own assessment of the reasonableness of the information provided by ceding companies (See Note 6 – Financial Guaranty Contracts Accounted for as Credit Derivatives, Note 5 - Financial Guaranty Policies Accounted for as Reinsurance and Note 8 – Losses and Loss Expense Reserve, for details of the work completed by the Company on this information). However, depending on the nature of the information provided by the ceding company, the Company may not be able to identify errors in the reported information in the period in which it is reported, which may be material, as indicated by corrections of errors in primary reported information in prior period financial statements.

Exposure to Puerto Rico

The Company has reinsured exposure to general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating $140.2 million par outstanding as of December 31, 2016, all of which are rated BIG. The Company's largest Puerto Rico exposures are to bonds issued by Puerto Rico Highway and Transportation Authority ("PRHTA") and Municipal Finance Authority ("MFA") in the amounts of $91.5 million and $44.8 million, respectively, at December 31, 2016. Beginning on January 1, 2016, a number of Puerto Rico credits have defaulted on bond payments.

Puerto Rico has experienced significant general fund budget deficits in recent years. These deficits, until recently, were covered primarily with the net proceeds of bond issuances, interim financings provided by Government Development Bank for Puerto Rico ("GDB") and, in some cases, one-time revenue measures or expense adjustment measures. In addition to high debt levels, Puerto Rico faces a challenging economic environment.

On November 30, 2015, and December 8, 2015, Governor Garcia Padilla ("the Former Governor") issued executive orders ("Clawback Orders") directing the Puerto Rico Department of Treasury and the Puerto Rico Tourism Company to retain or transfer certain taxes and revenues pledged to secure the payment of bonds issued by PRHTA, Puerto Rico Infrastructure Financing Authority ("PRIFA") and Puerto Rico Convention Center District Authority ("PRCCDA"). On January 7, 2016, Assured Guaranty Ltd. and subsidiaries ("Assured"), the entities ceding Puerto Rico exposures to the Company, sued various Puerto Rico governmental officials in the United States District Court, District of Puerto Rico asserting that this attempt to "claw back" pledged taxes and revenues is unconstitutional, and demanding declaratory and injunctive relief. The Puerto Rico credits reinsured by the Company impacted by the Clawback Orders are shown in the table "Puerto Rico Par Outstanding" below.

On April 6, 2016, the Former Governor signed into law the Puerto Rico Emergency Moratorium & Financial Rehabilitation Act (the "Moratorium Act"). The Moratorium Act purportedly empowers the governor to declare, entity by entity, states of emergencies and moratoriums on debt service payments on obligations of the Commonwealth and its related authorities and public corporations, as well as instituting a stay against related litigation, among other things. The Former Governor used the authority of the Moratorium Act to take a number of actions related to issuers of obligations the Company insures. A financial guarantor, along with holders of the Commonwealth general obligation bonds and certain Puerto Rico residents (the "National Plaintiffs") have filed suits to invalidate the Moratorium Act, and after the passage of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), the National Plaintiffs sought a relief from the stay of litigation imposed by PROMESA to pursue the action. On July 21, 2016, Assured filed a motion and form of complaint in the U.S. District Court for the District of Puerto Rico seeking relief from the stay of litigation imposed by PROMESA to seek a declaration that the Moratorium Act is preempted by Federal bankruptcy law. In November 2016 that court denied both Assured's and the National Plaintiffs' motions for relief from stay in the respective actions. The PROMESA stay expired on May 1, 2017.

18. RISKS AND UNCERTAINTIES (cont'd)

On June 30, 2016, PROMESA was signed into law by the President of the United States. PROMESA establishes a seven-member federal financial oversight board ("Oversight Board") with authority to require that balanced budgets and fiscal plans be adopted and implemented by Puerto Rico. PROMESA provides a legal framework under which the debt of the Commonwealth and its related authorities and public corporations may be voluntarily restructured, and grants the Oversight Board the sole authority to file restructuring petitions in a federal court to restructure the debt of the Commonwealth and its related authorities and public corporations if voluntary negotiations fail, provided that any such restructuring must be in accordance with an Oversight Board approved fiscal plan that respects the liens and priorities provided under Puerto Rico law. PROMESA also appears to preempt at least portions of the Moratorium Act and to stay debt-related litigation, including the Assured's litigation regarding the Clawback Orders. On August 31, 2016, the President of the United States appointed the seven members of the Oversight Board.

The Oversight Board has begun meeting and has hired Ramón Ruiz-Comas as interim executive director. On January 2, 2017, Ricardo Antonio Rosselló Nevares ("the Governor") took office, replacing the Former Governor. On January 29, 2017, the Governor signed the Puerto Rico Emergency and Fiscal Responsibility Act (Emergency Act) that, among other things, repealed portions of the Moratorium Act, defined an emergency period that lasted until May 1, 2017, continued diversion of collateral away from bonds the Company insures, and defined the powers and duties of the Fiscal Agency and Financial Advisory Authority (FAFAA). The emergency period has been extended through August 1, 2017.

On February 28, 2017, the administration of the Governor delivered a Fiscal Plan (the "Fiscal Plan") to the Oversight Board. The Fiscal Plan covers General Obligations of the Commonwealth of Puerto Rico ("GO"), Puerto Rico Sales Tax Financing Corporation ("COFINA"), PRHTA, Puerto Rico Public Buildings Authority ("PBA"), Government Development Bank for Puerto Rico ("GDB"), Puerto Rico Employees Retirement System ("ERS"), PRIFA, and several smaller borrowers. It does not include MFA, Puerto Rico Electric Power Authority ("PREPA"), Puerto Rico Aqueduct and Sewer Authority ("PRASA"), and other smaller entities with specific debt service ability.

In mid-March 2017, the Oversight Board certified Puerto Rico's Fiscal Plan, dated March 13, 2017. The Fiscal Plan provides only approximately $7.9 billion for Commonwealth debt service over the next ten years, an amount less than scheduled debt service for such period. The Fiscal Plan itself acknowledges that there are a number of legal and contractual issues not addressed by the Fiscal Plan. On May 3, 2017, Assured entities filed in the Federal District Court in Puerto Rico an adversary complaint seeking a judgment that the Fiscal Plan violates various sections of PROMESA and the U.S. Constitution, an injunction enjoining the Commonwealth and Oversight Board from presenting or proceeding with confirmation of any plan of adjustment based on the Fiscal Plan, and a stay on the confirmation of any plan of adjustment based on the Fiscal Plan pending development of a fiscal plan that complies with PROMESA and the U.S. Constitution.

On April 28, 2017, the Oversight Board approved fiscal plans for PREPA and PRHTA. The PREPA plan appears to be consistent with the Restructuring Support Agreement (RSA) described below. The PRHTA plan assumes that PRHTA will not pay any debt service at least through 2026. The Company does not believe the fiscal plan of PRHTA in its current forms complies with certain mandatory requirements of PROMESA.

On May 3, 2017, the Oversight Board filed a petition with the Federal District Court of Puerto Rico for the Commonwealth under Title III of PROMESA. Title III of PROMESA provides for a process analogous to a voluntary bankruptcy process under chapter 9 of the federal bankruptcy code. On May 22, 2017, the Oversight Board filed Title III for PRHTA. As of June 14, 2017, Title III has not been filed for MFA or PREPA.

The final shape, timing and validity of responses to Puerto Rico's distress eventually enacted or implemented under the auspices of PROMESA and the Oversight Board or otherwise, and the final impact, after resolution of legal challenges, of any such responses on obligations insured by the Company, are uncertain.

18. RISKS AND UNCERTAINTIES (cont'd)

The Company's Puerto Rico exposure is through bonds issued by PRHTA, MFA, PREPA, and GO.

PRHTA

As of December 31, 2016, the Company had $30.5 million reinsured net par outstanding of PRHTA (Transportation revenue) bonds and $61.0 million net par of PRHTA (Highway revenue) bonds. The Company has recorded reserves of $34.1 million as of December 31, 2016 related to this exposure. As of December 31, 2015, the recorded reserves for PRHTA exposures were $16.1 million. PRHTA is one of the public corporations affected by the Clawback Orders.

The Transportation revenue bonds are secured by a subordinate gross pledge of gasoline and gas oil and diesel oil taxes, motor vehicle license fees and certain tolls, plus a first lien on up to $120 million annually of taxes on crude oil, unfinished oil and derivative products. The Highway revenue bonds are secured by a gross pledge of gasoline and gas oil and diesel oil taxes, motor vehicle license fees and certain tolls. The Clawback Orders cover Commonwealth-derived taxes that are allocated to PRHTA. The PRHTA bonds are subject to executive orders issued pursuant to the Moratorium Act. As noted above, Assured filed a motion and form of complaint in the U.S. District Court for the District of Puerto Rico seeking relief from the PROMESA stay to seek a declaration that the Moratorium Act is preempted by Federal bankruptcy law and that certain gubernatorial executive orders diverting PRHTA pledged toll revenues (which are not subject to the Clawback Orders) are preempted by PROMESA and violate the U.S. Constitution, and also seeking damages and injunctive relief. That motion was denied on November 2, 2016, on procedural grounds. The PROMESA stay expired on May 1, 2017.

There were sufficient funds in the PRHTA bond accounts to make the July 1, 2016 and January 1, 2017 PRHTA debt service payments reinsured by the Company, and those payments were made in full. As noted above, on April 28, 2017, the Oversight Board approved a fiscal plan for PRHTA that PRHTA will not pay any debt service at least through 2026. The Company does not believe the PRHTA fiscal plan in its current form complies with certain mandatory requirements of PROMESA.

MFA

As of December 31, 2016, the Company had $44.8 million net par outstanding of bonds issued by MFA and secured by a pledge of local property tax revenues. The Company has recorded reserves of $1.8 million as of December 31, 2016 related to this exposure. As of December 31, 2015, the recorded reserves for MFA exposures were $2.4 million.

The MFA is a public corporation and governmental instrumentality of the Commonwealth, created to allow the municipalities of Puerto Rico to access the capital markets so they can finance public improvement programs more effectively. The MFA bonds are payable from the MFA's revenues and any money appropriated or transferred to the MFA by the Commonwealth. Revenues are derived mainly from payments on municipal bonds purchased by the MFA from PR municipalities. The municipal bonds are primarily backed by a statutory first lien on property taxes collected, without limitation as to rate or amount, on all taxable property within the issuing municipalities. The good faith, credit and unlimited taxing power of each issuing municipality is pledged for the payment of its general obligation municipal bonds and notes. Property taxes are collected directly in a lock-box by a separate municipal agency called the Municipal Revenue Collection Center created on behalf of the Commonwealth's municipalities.

In addition to the property tax revenue, the bonds are supported by Commonwealth appropriations of matching equalization funds. The bondholders are also protected by a reserve fund that is funded through revenue collections up to a formula-based amount., The MFA's Enabling Act provides that the Commonwealth shall annually apportion and pay to the Agency such sum as shall be necessary to maintain the reserve account in the required amount. The payment of such sum by the Commonwealth is subject to appropriation by the Legislature of Puerto Rico, which appropriation is authorized but not legally required to be made (the "Moral Obligation Pledge"). The Moral Obligation Pledge has never been drawn upon.

18. RISKS AND UNCERTAINTIES (cont'd)

No additional financial information has been received regarding MFA operations since June 30, 2014. MFA is not part of the Fiscal Plan. There were sufficient funds in the MFA bond accounts to make the July 1, 2016 and January 1, 2017 MFA bond payments reinsured by the Company, and those payments were made in full.

Although the MFA is not proposed under the Fiscal Plan for debt restructuring, the financial strain on the Commonwealth could have a significant adverse impact on the revenues available to pay debt service on MFA bonds reinsured by the Company due to insufficient financial support from the Commonwealth, economic weakness in the general economy or otherwise. There can be no assurance that the MFA bonds will continue to be supported by adequate revenues and be fully paid without claims on the Company's reinsurance.

PREPA

As of December 31, 2016, the Company had $3.5 million reinsured net par outstanding of PREPA obligations which are payable from a pledge of net revenues of the electric system. The Company has recorded reserves of $0.5 million as of December 31, 2016 related to this exposure. As of December 31, 2015, the recorded reserves for PREPA exposures were $0.6 million.

On December 24, 2015, PREPA, Assured, an ad hoc group of uninsured bondholders and a group of fuel-line lenders entered into a Restructuring Support Agreement (RSA) with PREPA that would, subject to certain conditions, result in, among other things, modernization of the utility and a restructuring of current debt. Upon finalization of the contemplated restructuring transaction, insured PREPA revenue bonds (with no reduction to par or stated interest rate or extension of maturity) will be supported by securitization bonds issued by a special purpose corporation and secured by a transition charge assessed on ratepayers. Legislation meeting the requirements of the original RSA was enacted on February 16, 2016, and a transition charge to be paid by PREPA rate payers for debt service on the securitization bonds as contemplated by the RSA was approved by the Puerto Rico Energy Commission on June 20, 2016.

PREPA made full payment of the principal and interest due on PREPA revenue bonds reinsured by the Company on July 1, 2016, and on January 1, 2017.

In March 2017, the Governor indicated a desire to modify certain aspects of the RSA. On April 6, 2017, the Governor announced that the Commonwealth, acting on behalf of PREPA, had reached an agreement in principle with the other parties to the RSA (including Puerto Rico's financial guaranty insurers) to supplement the RSA. In addition, the RSA now provides for a consensual restructuring under Title VI of PROMESA.

There can be no assurance that the conditions in the modified RSA will be met or that, if the conditions are met, the modified RSA's other provisions, including those related to the insured PREPA revenue bonds, will be implemented as currently contemplated. In addition, the impact of PROMESA, any action taken by the Oversight Board, the Moratorium Act and Emergency Act or any attempt to exercise the power purportedly granted by the Moratorium Act or the Emergency Act on the implementation of the RSA is uncertain. PREPA, during the pendency of the agreements, has suspended deposits into its debt service fund.

18. RISKS AND UNCERTAINTIES (cont'd)

The following table shows the Company's insured exposure to general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations.

Puerto Rico
Par Outstanding

	As of December 31, 2016	As of December 31, 2015
	(in millions)	
PRHTA (Highway revenue)	$ 61.0	$ 61.0
PRHTA (Transportation revenue)	30.5	27.0 *
PRHTA Total - subject to potential Clawback	91.5	88.0
MFA	44.8	54.2
PREPA	3.5	3.5
GO	0.5	0.5
Total exposure to Puerto Rico	$ 140.3	$ 146.2

The following table shows the scheduled amortization of the AORE insured general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations. AORE reinsures payments of interest and principal when those amounts are scheduled to be paid and cannot be required to pay on an accelerated basis. In the event that obligors default on their obligations, the Company would only be required to pay the shortfall between the principal and interest due in any given period and the amount paid by the obligors.

*Par outstanding for the PRHTA Transportation as of December 31, 2015 was understated due to an error in reporting by the ceding company. The correct amount should have been $30.5 million.

18. RISKS AND UNCERTAINTIES (cont'd)

Amortization Schedule of Puerto Rico Par Outstanding and Debt Service Outstanding As of December 31, 2016

	Scheduled Par Amortization	Scheduled Debt Service Amortization
	(in millions)	
2017 (January 1 - M:	$ -	$ 1.8
2017 (April 1 - June 30)	-	1.8
2017 (July 1 - September 30)	7.8	9.5
2017 (October 1 - December 31)	-	1.7
Subtotal 2017	7.8	14.8
2018	6.2	12.2
2019	8.4	14.7
2020	4.6	10.5
2021	3.5	9.1
2022-2026	43.6	62.5
2027-2032	28.2	44.6
2033-2038	38.0	43.1
Total	$ 140.3	$ 211.5

19. 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, 2016 and December 31, 2015.

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, 2016 and 2015 with appropriate eliminations being made for intercompany balances:

	2016	2015
ASSETS:		
Cash	$ 48,092,286	$ 7,645,920
Premiums receivable	63,858,698	52,535,993
Reinsurance balances receivable	307,500,995	278,847,999
Other assets	236,693	175,125
Total assets	$ 419,688,672	$ 339,205,037
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$ 193,402,840	$ 178,821,216
Unearned premium	99,743,743	91,643,999
Ceded premium payable	75,627,770	58,282,313
Payable to general agents	181,911	465,840
Funds withheld	43,281,485	3,709,119
Accounts payable and accrued expenses	1,756,358	658,870
Due to parent and affiliates	694,565	623,680
Total liabilities	$ 414,688,672	$ 334,205,037
EQUITY:		
Policyholders' surplus	$ 300,000	$ 300,000
Surplus debenture	4,700,000	4,700,000
Total equity	$ 5,000,000	$ 5,000,000
Total Liabilities and Equity	$ 419,688,672	$ 339,205,037

20. BUSINESS CONCENTRATION

The Company's property casualty insurance subsidiaries, OACM and OA Indemnity, produce business through unrelated managing general agencies. In 2016, four of these managing general agencies produced approximately 50.4% of OACM's gross premium writings and 49.6% of the Company's property casualty gross written premiums. In 2016, one managing general agent produced approximately 80% of OAIC's gross premium writings and 1% of the Company's property casualty gross written premiums.

21. 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, 2016.

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, 2016.

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, 2016.

21. GOODWILL AND INTANGIBLE ASSETS (cont'd)

The gross and net carrying amounts of intangible assets by major category as of December 31, 2016 and 2015 are as follows:

	Gross	Accumulated Amortization	Net
As of December 31, 2016			
Insurance licenses	$ 4,800,000	$ -	$ 4,800,000
Customer relationships	12,100,000	12,100,000	-
Internally developed software	350,000	350,000	-
Intangible assets	$ 17,250,000	$ 12,450,000	$ 4,800,000
As of December 31, 2015			
Insurance licenses	$ 4,800,000	$ -	$ 4,800,000
Customer relationships	12,100,000	12,100,000	-
Internally developed software	350,000	350,000	-
Intangible assets	$ 17,250,000	$ 12,450,000	$ 4,800,000

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

22. NOTES PAYABLE

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

In 2015, a partial repayment of $1.6 million of principal was made on the 2014 OACC Notes and a series of new Series A Secured Senior Notes (the "2015 OACC Notes") were issued to replace and superseded the note that had been previously issued. The aggregate principal amount of the 2015 OACC Notes after this payment was $18.4 million. 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 $5.9 million and $1.9 million were made in 2016 and 2015, respectively, to the 2015 OACC Notes. The 2016 repayments were to Directors and members of their respective families. As of December 31, 2016, $ 0.3 million in interest was accrued and unpaid on the remaining balance of the 2015 OACC Notes.

In connection with the acquisition of OGL, AOG issued $43.9 million of Senior Notes (the "AOG Notes") to the former shareholders of OGL that mature on October 28, 2039. Interest on the AOG notes is payable in quarterly installments at a fixed rate of 9.0% per annum. Principal repayments of $14.6 million and $17.3 million were made in 2016 and

22. NOTES PAYABLE (cont'd)

2015, respectively, on the AOG Notes. Of the 2016 repayments, $10.2 million were to Directors and members of their respective families. As of December 31, 2016, $0.2 million in interest was accrued and unpaid on the remaining balance of the AOG Notes.

Directors and members of their respective families held notes payable in the aggregate principal amount of approximately $11.0 million at December 31, 2016.

23. TAXATION

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

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

AORE is registered as an Exempt Insurance Company carrying on general insurance business in accordance with the provisions of the Barbados Exempt Insurance Act 1983 ("Exempt Insurance Act"). AORE, as an Exempt Insurance Company, has received an undertaking exempting it from corporate taxation for the first fifteen financial years, commencing with 2013. After the first fifteen financial years AORE will be subject to corporate tax of 2% on the first $0.13 million of its profits and 0% on any excess. AORE is further exempt from all other direct or indirect Barbados taxes on its profits and transfers of assets and securities, withholding taxes on dividends, interest or other returns payable to its shareholders.

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

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

	2016	2015
Current tax expense	$ -	$ -
Deferred tax expense	7,000	7,000
Net income tax expense	$ 7,000	$ 7,000

23. 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 35%.

	2016	2015
Net (loss) income before income tax	(7,499,577)	18,555,491
Adjustment for non-taxable entities	10,679,522	(17,474,791)
Taxable loss before income tax expense	$ 3,179,945	$ 1,080,700
Expected tax benefit at statutory rates in taxable jurisdictions	1,112,981	378,245
Increases (reductions) in taxes resulting from:		
Exclusion of profit from VIE not included in consolidated		
Valuation allowance	(101,382)	(396,216)
Other	(1,004,599)	24,971
Income tax expense	$ 7,000	$ 7,000
Effective tax rate	0%	0%

23. TAXATION (cont'd)

Tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and deferred tax liabilities at December 31, 2016 and 2015 were as follows:

	2016	2015
Deferred tax assets:		
Net operating loss carryforward	$ 8,131,259	$ 8,147,855
Unearned premium reserves	50,196	48,135
Discounted unpaid losses and loss adjustment expenses	28,805	109,723
Goodwill and other intangible assets	-	-
Total deferred tax assets	8,210,260	8,305,713
Deferred tax liabilities:		
Deferred acquisition costs	39,466	33,537
Intangible Assets with permanent differences	62,125	55,125
	101,591	88,662
Deferred tax assets, net, before valuation allowance	8,108,669	8,217,051
Valuation allowance	(8,153,294)	(8,254,676)
Deferred tax liabilities, net	$ (44,625)	$ (37,625)

As of December 31, 2016, the Company had net operating loss carry forwards of $22,634,721 the expiration of which is as follows:

2032	$ 5,996,823
2033	$ 8,173,931
2034	$ 8,257,850
2035	$ 206,117

As of December 31, 2016 and 2015, 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.

24. 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 four reinsurers that have net balances due in excess of 5% of OACM's total receivable balances in 2016. These four reinsurers account for approximately 90% of the total net recoverable from reinsurers, and 40% for 2015. 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. 62% of the reinsurance balances OACM ceded as of December 31, 2016 were to reinsurers rated A or better. Substantially all of the balances ceded to reinsurers rated less than A are collateralized. During 2016 and 2015, OACM obtained collateral totaling $187.0 million and $165.4 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 $83.2 million as of December 31, 2016 as compared to $85.2 million for 2015.

25. 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, 2016, OA Indemnity had statutory capital and surplus of $9.6 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, 2016.

25. STATUTORY REQUIREMENTS (cont'd)

The Company's Barbados domiciled insurance companies are required to maintain a minimum level of solvency under the Barbados Exempt Insurance Act 1983 (the "Exempt Insurance Act"). For the purpose of compliance with the solvency criteria under the Exempt Insurance Act, assets and liabilities are calculated in accordance with US GAAP. The Barbados domiciled insurance companies also must comply with the provisions of the Barbados Companies Act regulating the payment of dividends and making of distributions from contributed surplus. A company is prohibited from declaring or paying a dividend, if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due or (b) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and stated capital. The excess of AORE's assets over the aggregate of its liabilities and stated capital at December 31, 2016 was $55.4 million. The minimum required solvency margin for AORE was $1.2 million at December 31, 2016. The excess of the Company's other Barbados domiciled insurance companies' assets over the aggregate of their liabilities and stated capital was $1.3 million. The minimum required solvency margin for those entities was $0.8 million.
The Bermuda domiciled insurance companies are required to prepare statutory financial statements and to file statutory financial returns annually under The Bermuda Insurance Act of 1978, amendments thereto and regulated regulations (the "Act"). The Act also requires the companies to meet certain measures of solvency and liquidity during the year or period. The statutory capital and surplus for the Company's Bermuda domiciled insurance companies was $4.2 million as of December 31, 2016, and its minimum required statutory capital and surplus under the Act was $0.4 million.

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

26. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 14, 2017, which is the date the financial statements were issued.

Subsequent to year end there have been ongoing developments related to Puerto Rico's ability to meet its future debt obligations. Through the date of the financial statements, AORE has been notified by its cedant, Assured, of an increase of approximately 150%, or $10.5 million, in the Puerto Rico-related reserves ceded to AORE. The potential for significant volatility due to future events continues to exist in Puerto Rico exposures reinsured by AORE.

Subsequent to year end, Old American Services signed a lease agreement.

Future minimum lease payments as follows:

2018	$	120,884
2019	$	290,122
2020	$	294,389
2021	$	298,655
Thereafter	$	2,210,047

Director Biographies

Set forth below is biographical information concerning each current director and director nominee of AOG, AORE and OGL including each such individual's principal occupation and the period during which such person has served as a director of AOG, AORE, or OGL if applicable. Information about share ownership of certain directors and executive officers as of December 31, 2016, can be found under "Directors and Executive Officers—Security Ownership of Executive Officers and Directors" in our 2016 Annual Report delivered herewith.

Clement S. Dwyer, Jr.
Age 68
Director since 2010

Mr. Dwyer is Chairman of AOG and OGL and a director of AORE. He is also Managing Member of Snow Squall, LLC of Portsmouth, New Hampshire, a provider of insurance and reinsurance consulting services, and former President of URSA Advisors, Inc., of Las Vegas, Nevada. Previously he served as President of Signet Star Holdings, Inc., a reinsurance subsidiary of W.R. Berkeley Corp in 1996. From 1970 until 1996 he held various positions at Guy Carpenter & Company, including most recently Executive Vice President. Mr. Dwyer is also a Director of Vanbridge Holdings LLC of New York, New York, Dowling & Partners of Farmington, Connecticut, Grandparents.com Inc. Of New York, New York, and ProSight Specialty Holdings Inc. of Morristown, New Jersey. He received a BA degree from Tufts University and completed the Executive Program at Stanford University Graduate School of Business.

Rochelle P. Fyfe
Age 50

Chief Financial Officer,
Director since 2013

Ms. Fyfe is Chief Financial Officer of AOG and OGL and is a Director of AOG, AORE and OGL. Ms. Fyfe is also a director and officer of various direct and indirect subsidiaries of OGL in Bermuda, Barbados, and the United States. Ms. Fyfe has over twenty-five (25) years of experience in the insurance industry. Ms. Fyfe was the Senior Vice President of Accounting for a publicly traded insurance group in the U.S. Prior to this, Ms. Fyfe was a Senior Manager at KPMG, and has held positions as Vice President of Finance and Controller for other publicly traded and privately held insurance companies, including QBE and Winterthur. Ms. Fyfe received a Bachelor of Accountancy from New Mexico State University and is a Certified Public Accountant.

Jose O. Montemayor
Age 66

Director since 2016

Mr. Montemayor is a Director of AOG and OGL. Mr. Montemayor is a principal of Black Diamond Capital Partners, a member of Black Diamond Advisory Services, LLC and the Principal at J. Montemayor and Associates, LLC, where he serves as an advisor to the Board of Directors of several insurance companies. From 1999 through 2005, Mr. Montemayor was Insurance Commissioner of the State of Texas. Mr. Montemayor is currently a Director of CNA Financial Corp. (NYSE: CNA), as well as a Director of Prosperity Life Insurance Group, Ascension Texas, Smart Life Insurance Co., and Vanbridge Holdings, LLC, as well as a member of the Financial Council to the Austin, Texas Diocese. Mr. Montemayor received a BA in Management from St. Edwards University and holds advanced degrees in Management (MA Management) from Webster University; Logistics (MS Logistics) from the Air Force Institute of Technology; and Accounting (Masters of Accountancy) from Texas State University and is a Certified Public Accountant.

Debra J. Roberts
Age 63

Chief Executive Officer,

Ms. Roberts is the President, Chief Executive Officer and a Director of AOG and OGL. She also serves as Chairperson of the Board of AORE and as Chairperson and Chief Executive Officer of several of OGL's direct and indirect subsidiaries in Bermuda, Barbados and the United States. Since 1993, Ms. Roberts has served as the Chief Executive Officer of Debra Roberts & Associates, Inc. which provides risk

Director since 2011

transfer consulting and arbitration-related services to the domestic and international reinsurance industries. From 1981 through 1993, Ms. Roberts held various senior positions at three companies within the Swiss Reinsurance Group. She holds an MBA from Fordham University Graduate School of Business and is a Chartered Financial Analyst.

James L. Zech
Age 60

Director since 2012

Mr. Zech is a Director and Deputy Chairman of AOG and OGL, as well as a Director of Old American County Mutual Fire Insurance Company. Mr. Zech co-founded and served as President of High Ridge Capital since its formation in 1995. From 2005 through 2009, Mr. Zech was a partner in Northaven Management, Inc., a private investment firm focused on the financial services industry. From 1992 to 1995, Mr. Zech was an investment banker at S.G. Warburg & Co., Inc., where he was responsible for forming the U.S. Insurance Group as part of S.G. Warburg & Co, Inc.'s worldwide financial institutions practice. From 1988 to 1992, Mr. Zech was a member of the Insurance Investment Banking Group of Donaldson, Lufkin & Jenrette Securities Corporation. Mr. Zech is a former Director of Acordia, Inc., Alterra Capital Holdings Ltd., Eastern Insurance Holdings, Inc., Front Royal Group, Inc., and James River Group, Inc. He holds a BS from the University of Pennsylvania and a JD from the New York University School of Law.

Sir Trevor Carmichael
Age 72

Director of AORE since 2014

Sir Trevor Carmichael, KA, LVO, QC, is a Director of AORE. Sir Trevor is the founder of Chancery Chambers, a Barbados law firm engaged primarily in international business law, environmental law and law related to charities. He is a member of the Middle Temple in London and the Barbados Bar. He is also a member of the International Bar Association, the Inter-American Bar Association and a Committee member of the Inter-American Bar Foundation as well as an associate member of the Canadian Bar Association. Sir Trevor holds memberships in the International Tax Planning Association, the International Fiscal Association, and is Charter President of the Barbados Chapter of the International Fiscal Association. He is a Life Fellow of the Institute for Advanced Legal Studies in the United Kingdom, a Life Member of the Commonwealth Magistrates and Judges Association and a member of the International Law Association. Sir Trevor was the recipient on the National Honors List for his contribution to the law, financial services and the preservation of national heritage. In 2012, he was awarded the Governor of Canada's Medallion. In 2013, he was appointed by the Governor General of Barbados as an Independent Senator to Barbados' Upper Chamber. In June of 2013, he was appointed as a Lieutenant of the Royal Victorian Order in the Queen's Birthday Honours List, and was awarded the Knight of St. Andrew in the 2013 Barbados Independent Honours.

Conrad P. Voldstad
Age 67

Director AORE since 2014

Mr. Conrad P. Voldstad is a Director of AORE. Mr. Voldstad has over forty (40) years of experience in the financial services industry. Mr. Voldstad was Chief Executive Officer of International Swaps and Derivatives Association and was founder and Senior Principal of Arlington Hill Investment Management, LLC. Mr. Voldstad also held senior positions with Merrill Lynch and JP Morgan. Mr. Voldstad was a member of the Board of Directors of AOG from 2006 through 2009 and has acted as a consultant to AOG since 2012. Mr. Voldstad has a BA from Boston College and a law degree from Fordham University School of Law and an MBA from Dartmouth College.

Mr. David K. Steel is not standing for re-election to the Board of AORE.

Executive Biographies

For biographical information regarding our executive officers, Debra J. Roberts, the President and Chief Executive Officer of AOG, and Rochelle P. Fyfe, Chief Financial Officer of AOG, please refer to the "Director Biographies" section of this Annual Report. Ms. Ryan resigned as Executive Vice President and General Counsel of the Company effective April 14, 2017. However, she continues to provide legal support for the Company pursuant to a Legal Services Agreement.

Security Ownership of Executive Officers and Directors

Pursuant to Regulation 6.9(2)(x)(a) and (b) of Section IIA of the Bermuda Stock Exchange Listing Regulations, the total interests of all directors and executive officers of the Company in the common shares of the Company as at December 31, 2016, was 1990 shares or 4.47% of the common shares outstanding, net of treasury shares.

Equity Compensation of Directors

The table below sets forth the aggregate number of shares underlying option awards and restricted stock unit ("RSU") awards outstanding at fiscal year-end 2016 for each director as of December 31, 2015, (other than Ms. Roberts and Ms. Fyfe, whose equity awards are set forth in "Equity Compensation of Executive Officers" below).

Equity Compensation of Directors

Name	Shares Underlying Options at Dec 31, 2016 (Outstanding)	Shares Underlying Options at Dec 31, 2016 (Vested and Exercisable)	RSUs: That Have Not Vested
James Zech …………………………..	29.53	29.53	19.10
Clement S. Dwyer ……....…………	7.15	7.15	19.10
Jose O. Montemayor …...…………	-	-	-

Share options granted to the directors under our 2001 Stock Option Plan prior to 2006 vested quarterly over a three year period. Share Options granted to directors beginning in 2006 under the 2006 Equity Plan vest according to the terms of the Option Grant. RSUs vest annually in equal installments over a four-year period.

Equity Compensation of Executive Officers

The following table shows equity awards granted to officers of the Company outstanding at December 31, 2016:

Name	Number of Common Shares Underlying Unexercised Options Exercisable	Number of Common Shares Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares that Have Not Vested	Market Value of Shares That Have Not Vested [1]
Debra J. Roberts	26.15	—	$915.00	4/26/2019	—	—
	125.00	375.00	$850.00	12/15/2025	—	—
	—	—	—	—	82.10	$57,634
Rochelle P. Fyfe	37.50	112.50	$850.00	12/15/2025	66.35	$46,578
Patricia A. Ryan	37.50	112.50	$850.00	12/15/2025	50.00	$35,100

(1) Based on the closing price of $702.00 per share on December 30, 2016, the last business day of 2016.

Options granted prior to May 2006 were awarded under our 2001 Stock Option Plan and vest in 8.33% increments at the end of each quarter, beginning with the quarter in which the grant occurred. Our 2001 Stock Option Plan was terminated in May 2006, except as to awards that were already outstanding at that date. No further awards will be granted under our 2001 Stock Option Plan.

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

The following table shows options exercised and RSUs vested during 2016:

	Option Awards		RSU Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
Debra J. Roberts	—	—	6.00	$4,950.00 [2]
	—	—	6.00	$4,950.00 [2]
	—	—	62.00	$43,400.00 [4]
	—	—	6.00	$4,950.00 [3]
Rochelle P. Fyfe	—	—	3.00	$2,100.00 [4]
	—	—	6.00	$4,950.00 [3]
	—	—	25.00	$20,625.00 [3]
Patricia A. Ryan	—	—	25.00	$20,625.00 [3]

(2) Based on the closing price of $825.00 per share on April 27, 2016, the day of vesting.

(3) Based on the closing price of $825.00 per share on May 16, 2016, the day of vesting

(4) Based on the closing price of $700.00 per share on October 3, 2016, the day of vesting

Director Service Contracts and Other Contracts of Significance

Effective April 1, 2016, Old American Capital Corporation entered into Consultancy Agreement with Clement S. Dwyer, Jr. and James L. Zech for Mr. Dwyer and Mr. Zech to assist with general corporate issues, as well as loss mitigation strategies for the Company. Under the terms of the Consultancy Agreement, Mr. Dwyer and Mr. Zech were each to receive a fee of $300,000 per contract year, as well as a car allowance of $3,000 per month for the lease of a vehicle.

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