American Overseas Group Limited, formerly RAM Holdings Ltd., Announces Third Quarter 2011 Net Income Available to Common Shareholders of $26.9 Million and an Operating Loss of $8.0 Million

HAMILTON, Bermuda--(BUSINESS WIRE)-- American Overseas Group Limited (BSX:RAMR) (Pink Sheets: AORE) ("AOG" or the "Company") today reported net income available to common shareholders of $26.9 million, or a net income of $1.02 per diluted share for the third quarter ended September 30, 2011. This compares to a net loss of $2.8 million, or a net loss of $0.11 per diluted share, for the third quarter ended September 30, 2010. Net income available to common shareholders for the nine month period ended September 30, 2011 was $31.4 million, or net income of $1.19 per diluted share, compared to net income of $25.3 million, or $0.96 per diluted share, for the nine month period ended September 30, 2010.

The Company's net income is calculated in conformity with U.S. generally accepted accounting principles ("GAAP"). The Company also provides information regarding its operating income (loss), a non-GAAP financial measure, because the Company's management and Board of Directors, as well as many research analysts and investors, also evaluate financial performance on the basis of operating income (loss), which excludes non-operating items such as realized investment gains or losses, unrealized gains or losses on credit derivatives and foreign currency gains or losses.

During the third quarter of 2011, the operating loss, a non GAAP financial measure, was $8.0 million, or $0.30 per diluted share, compared to operating income of $2.2 million, or $0.08 per diluted share, during the third quarter of 2010. The operating loss during the nine month period ended September 30, 2011 was $5.7 million, or $0.21 per diluted share, compared to an operating income of $0.6 million, or $0.03 per diluted share, for the nine month period ended September 30, 2010.

Commenting on the financial results, the Company's Chief Executive Officer, David Steel, noted that, "Our third quarter net income was largely the result of a $33.4 million unrealized gain within the change in fair value of credit derivatives during the period. As I have pointed out in the past, we view operating income, which excludes unrealized gains on derivatives, as a better measure of quarterly performance. In the third quarter our operating income suffered from a pick-up in losses on our insured financial guaranty portfolio. The losses were related to further loss development on US RMBS, declining revenues in a print media whole business securitization and the Chapter 9 Bankruptcy filing of Jefferson County, Alabama. In addition, our reserves also increased due to declining interest rates, which reduced the discount rates we use to calculate them.

"In Q3 2011 we continued work on our plan to begin writing new business in the short-tail, non-catastrophe property/casualty reinsurance markets. Any such new business remains subject to regulatory approval. In connection with this strategic initiative, we are pleased to announce our change of name and new address."

Name Change and New Address

The Company has discontinued writing financial guaranty reinsurance and is currently considering writing new lines of business, specifically short-tail, non-catastrophe, property/casualty reinsurance. In connection with the Company's new business focus and to reflect the run-off of the financial guaranty business line, on December 2, 2011, as previously approved by the Company's shareholders, the Company changed its name from RAM Holdings Ltd. to American Overseas Group Limited and the name of its operating subsidiary, RAM Reinsurance Company Ltd., to American Overseas Reinsurance Company Limited ("AORE" or the "Operating Subsidiary"). The Company's ticker symbol on the OTC Pink Sheets, which was previously "RAMR.PK", was changed effective December 19, 2011, to "AORE.PK". The Company's ticker symbol with the Bermuda Stock Exchange is "RAMR.BH" and the Company has applied for the ticker to be changed to "AORE.BH". The Bermuda Stock Exchange is working with Bloomberg to reflect this change. The Company has also moved its corporate offices to Schroders House, 131 Front Street, Hamilton, HM 12, Bermuda.

Commutations and Settlements

Effective September 14, 2011, the Operating Subsidiary entered into a Settlement Agreement (the "Agreement") with one of the ceding companies from its financial guaranty business line. The Agreement provided, among other things, for the Operating Subsidiary to make a $1.2 million commutation payment to terminate the reinsurance with respect to certain policies previously assumed, with par in-force of $26.2 million (the "Released Risks"). In return, each party was released from all liabilities and obligations with respect to the Released Risks. In addition the Agreement includes, agreements regarding certain retained risk that will continue to be covered under the existing treaty. The effect of the Agreement on the Company's results of operations was a gain of $0.1 million.

Summary of Operating Results

Net income for the quarter and nine month period ended September 30, 2011 was $26.9 million and $31.4 million, respectively.

Earned premiums in the third quarter 2011 of $4.1 million, were 14% higher than the $3.6 million earned in the third quarter 2010. After eliminating accelerated premiums from refundings of $1.4 million from total earned premiums, core earned premiums in the third quarter 2011 were $2.7 million; this was $0.6 million, or 18%, lower than the core earned premiums during the comparable period in 2010, which included accelerated premiums from refundings of $0.3 million. Earned premiums for the nine month period ended September 30, 2011 were $12.1 million, including accelerated premiums from refundings of $2.8 million. Earned premiums for the nine month period ended September 30, 2011 were 5% higher than the $11.5 million of earned premiums for the nine month period ended September 30, 2010, which included accelerated premiums from refundings of $1.5 million. After eliminating accelerated premiums from refundings, earned premiums for the nine month periods ended September 30, 2011 and 2010, were $9.3 million and $10.0 million, respectively.

Net change in fair value of credit derivatives totaled a gain of $34.2 million in the third quarter 2011, which was $40.8 million more than the $6.6 million loss in the third quarter of 2010. Net change in fair value of credit derivatives for the third quarters of 2011 and 2010 were comprised of $0.8 million and $0.9 million of realized gains, respectively, and $33.4 million and $(7.5) million of unrealized gains (losses) on derivatives, respectively. The net unrealized gain in the third quarter 2011 was primarily attributable to (i) the increase in the adjustment for the Company's own non-performance risk of $40.2 million, partially offset by (ii) the increase in gross unrealized losses on credit derivative policies of $6.8 million. The increase in gross unrealized losses on credit derivative policies was primarily due to the widening of credit spreads in the market. In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification 820 - "Fair Value Measurements and Disclosures" ("ASC 820"), the Company calculates an adjustment for its own non-performance risk. The effect of the ASC 820 requirement on the Company's derivative liabilities on its balance sheet was a reduction of approximately $115.2 million at September 30, 2011. Net change in fair value of credit derivatives for the nine month period ended September 30, 2011 and 2010 were $35.3 million and $(2.7) million, respectively.

Net investment income for the third quarter 2011 was $2.4 million, 11% below the $2.7 million recorded in the third quarter 2010. For the nine month period ended September 30, 2011, net investment income was $7.2 million, 17% below the $8.7 million recorded in the nine month period ended September 30, 2010. The decrease in investment income in the three and nine month periods ended September 30, 2011 was primarily due to a decrease in the book yield on the portfolio from 3.6% as of September 30, 2010 to 3.1% as of September 30, 2011.

Realized gains on investments for the third quarter 2011 were $1.5 million compared to $0.4 million in realized gains for the same period in 2010. For the nine month periods ended September 30, 2011 and 2010, realized gains on investments were $2.2 million and $1.7 million, respectively.

During the nine month period ended September 30, 2010, net gains on extinguishment of debt of $15.3 million were recognized on the repurchase of the remaining portion of the Company's unsecured senior notes (the "Senior Notes"). Gains of $11.5 million were recognized on the repurchase of 15,300 of the Company's Series A preference shares (the "Series A Preference Shares") during the nine month period ended September 30, 2010. During the nine month period ended September 30, 2011, there were no such repurchase activities.

Losses and loss adjustment expenses were $9.3 million in the third quarter 2011, contributing to a loss ratio of 228%, compared to losses and loss adjustment expenses of $0.5 million and a loss ratio of 13% for the comparable 2010 period. For the nine month period ended September 30, 2011, losses and loss adjustment expenses were $12.9 million, contributing to a loss ratio of 106%, compared to losses of $5.2 million and a loss ratio of 45% for the comparable period in 2010. The increase in the three and nine month periods ended September 30, 2011 loss ratios was primarily attributable to further adverse development on US residential mortgage backed securities ("RMBS") policies, along with declining revenues in a print-media whole business securitization and due to the Chapter 9 bankruptcy filing of Jefferson County, Alabama. Reserves also increased due to the general decline in interest rates, which caused the discount rates used to value the reserves to decrease.

Acquisition expenses were $3.7 million in the third quarter of 2011 compared to $1.6 million for the comparable 2010 period. Acquisition expenses for the nine month periods ended September 30, 2011 and 2010 were $7.2 million and $5.1 million, respectively. The increase in acquisition expenses in the three and nine month periods ended September 30, 2011 as compared to the respective comparable 2010 periods was primarily due to the write off of $2.1 million of DAC (Deferred Acquisition Costs) which are considered irrecoverable. Excluding this write off, acquisition expenses are closely related to earned premiums, and the change in acquisition expenses for the three and nine month periods ended September 30, 2011 as compared to prior year, is consistent with the change in earned premiums in the respective periods.

Third quarter 2011 operating expenses of $1.7 million were $0.1 million, or 6%, below the level of operating expenses in the third quarter of 2010. For the nine month periods ended September 30, 2011 and 2010, operating expenses were $5.3 million and $9.4 million, respectively. The decrease in operating expenses for the nine month period ended September 30, 2011 as compared to 2010 was primarily due to (i) reductions in staff made during May 2010, (ii) a decline in legal fees and (iii) nonrecurring expenses in 2010 relating to the repurchase of a portion of the Company's Series A Preference Shares and a portion of the Class B preference shares (the "Class B Preference Shares") of the Operating Subsidiary.

Balance Sheet

Total assets of $403.3 million at September 30, 2011 were $5.1 million, or 1%, below the level of total assets at December 31, 2010. This decrease was primarily related to the reduction in deferred policy acquisition costs with the run off of the Company's financial guaranty reinsurance portfolio and the write off of DAC discussed above. Shareholders' equity of $124.6 million was $33.8 million, or 37%, above the level of shareholders' equity at December 31, 2010, primarily due to the net income earned in the nine month period ended September 30, 2011. Book value per share was $4.71, an increase of 37% from year-end 2010. Operating book value and adjusted operating book value per share, both of which are non-GAAP financial measures, were $5.58 and $8.46, respectively, at September 30, 2011, a decrease of 1% and 9%, respectively, from year-end 2010.

Subsequent Events

Reverse Stock Split

On November 8, 2011, as previously approved by the Company's shareholders, the Company effected a reverse stock split of its issued common shares (the "Consolidation"). The Company's issued common shares of par value US$0.10 each were consolidated into common shares of par value US$1.00 each on a 1 for 10 basis. After the Consolidation, a portion of the Company's additional paid in capital account was capitalized in order to issue fractions of common shares to any common shareholder who held a fraction of a common share as a result of the Consolidation, in order to round up any fractional shares to the next whole share. A total of 65.1 common shares were issued to effect this round up of fractional shares.

Appropriate adjustments will be made in the Company's year-end 2011 financial statements, to the shareholders' equity account on the Company's balance sheet, and to the notes to the Company's financial statements, to reflect the changes in the number of issued shares and the par value. The Company does not anticipate that any other accounting consequences, including material changes to the amount of stock-based compensation expense to be recognized in any period, will arise as a result of the Consolidation.

Net income/loss per share will increase as a result of the Consolidation because there will be fewer common shares outstanding, although the Consolidation will have no effect on the Company's aggregate earnings.

The following table presents the Company's net income/(loss) per share had the Consolidation been effective as of September 30, 2011:

(dollars in thousands except share and per share amounts)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2011	**2010**	**2011**	**2010**
Net income (loss)	**$ 26,934**	**$ (2,820)**	**$ 31,428**	**$ 25,250**
Net income (loss) per common share:				
Basic	$ 10.19	$ (1.07)	$ 11.90	$ 9.57
Diluted	$ 10.17	$ (1.07)	$ 11.86	$ 9.57
Weighted-average number of common shares outstanding:				
Basic (1)	2,643,051	2,639,444	2,641,816	2,637,480
Diluted (1)	2,648,037	2,639,444	2,649,152	2,637,480

(1) Assumes that basic and diluted shares are rounded up to the next whole share.

Subsequent to the Consolidation, the issued shares impacted by the Consolidation will have a par value of $1.00 per share. The remaining unissued shares which are not subject to the Consolidation will continue to have a par value of $0.10 per share.

Forward-Looking Statements

This release contains statements that may be considered "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements include, without limitation, the Company's expectations respecting the volatility of its insured portfolio, losses, loss reserves and loss development, the adequacy and availability of its liquidity and capital resources, its current run off strategy, its consideration of other reinsurance businesses, its expense reduction measures and the effects of the Consolidation on its year-end 2011 Financial Statements. These statements are based on current expectations and the current views of the economic and operating environment and are not guarantees of future performance. A number of risks and uncertainties, including economic competitive conditions, could cause actual results to differ materially from those projected in forward-looking statements. The Company's actual results could differ materially from those expressed or implied in the forward-looking statements. Among the factors that could cause actual results to differ materially are: (i) the Company's ability to execute its business strategy, including with respect to any new reinsurance businesses; (ii) changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates and other factors; (iii) the loss of significant customers with which the Operating Subsidiary has a concentration of its reinsurance in force; (iv) legislative and regulatory developments; (v) changes in regulation or tax laws applicable to the Company or its customers; (vi) more severe or more frequent losses associated with the Operating Subsidiary's insured portfolio; (vii) losses on credit derivatives; (viii) changes in the Company's accounting policies and procedures that impact the Company's reported financial results; (ix) the effects of ongoing and future litigation and (x) other risks and uncertainties that have not been identified at this time. The Company undertakes no obligation to revise or update any forward-looking statement to reflect changes in conditions, events, or expectations, except as required by law.

Explanation of Non-GAAP Financial Measures

The Company believes that the following non-GAAP financial measures included in this release serve to supplement GAAP information and are meaningful to investors.

Operating income (loss): The Company believes operating income (loss) is a useful measure because it measures income from operations, unaffected by non-operating items such as realized investment gains or losses, unrealized gains or losses on credit derivatives and foreign currency gains or losses. Operating income (loss) is typically used by research analysts and rating agencies in their analysis of the Company.

Operating Book Value per share and Adjusted Operating Book Value per share: The Company believes the presentation of operating and adjusted operating book value per share to be useful because they give a measure of the value of the Company, excluding non-operating items such as unrealized gains and losses on credit derivatives. The Company derives operating book value by beginning with GAAP book value and adding back the unrealized gain or loss portion of its derivative liability, excluding the impact of credit impairments. Adjusted operating book value per share begins with operating book value as calculated above and then adding or subtracting the value of:

a. GAAP unearned premium reserves (on policies classified as financial guarantee);

b. Deferred acquisition costs;

c. Unearned premiums reserves and the present value of estimated future installment premiums net of ceding commissions on credit derivative policies (discounted at 0.96% at September 30, 2011, and 1.26% at December 31, 2010);

d. Unrealized appreciation or depreciation of investments; and

e. Noncontrolling interest in subsidiary.

Credit Impairments on Insured Credit Default Swap ("CDS") Contracts: Management measures and monitors credit impairments on the Operating Subsidiary's credit derivatives, which are expected to be paid out over the term of the credit default swap policies. The credit impairments are a non-GAAP financial measure reported as management believes this information to be useful to analysts and investors to review the results of our entire portfolio of policies. Management considers credit derivative policies as a normal extension of Operating Subsidiary's financial guarantee business and reinsurance in substance.

American Overseas Group Limited is a Bermuda-based holding company. Its operating subsidiary, American Overseas Reinsurance Company Ltd., has historically provided financial guaranty reinsurance for U.S. and international public finance and structured finance transactions. More information can be found at www.aoreltd.com.

American Overseas Group Limited
Consolidated Balance Sheets
(unaudited)
As at September 30, 2011 and December 31, 2010
(dollars in thousands)

	September 30, 2011	December 31, 2010
Assets		
Investments:		
Fixed-maturity securities held as available for sale, at fair value		
(Amortized Cost: $270,687 and $280,807)	$ 283,759	$ 291,620
Cash and cash equivalents	19,704	5,718
Restricted cash	32,565	16,722
Accrued investment income	1,756	1,818
Reinsurance balances receivable, net	13,377	17,659
Recoverables on paid losses	6,064	19,231
Deferred policy acquisition costs	45,215	54,870
Deferred expenses	455	521
Other assets	358	193
Total Assets	$ 403,253	$ 408,352
Liabilities and Equity		
Liabilities:		
Loss and loss expense reserve	$ 68,188	$ 52,412
Unearned premiums	113,404	133,666
Accounts payable and accrued liabilities	1,043	1,248
Derivative liabilities	29,328	63,525
Redeemable Series A preference shares ($1,000 redemption value and $0.10 par value; authorized shares - 75,000; issued and outstanding shares - 59,700 at September 30, 2011 and December 31, 2010)	59,700	59,700
Total Liabilities	271,663	310,551
Shareholders' Equity:		
Common shares	2,643	2,639
Additional paid-in capital	231,437	231,339
Accumulated other comprehensive income	13,072	10,813
Retained deficit	(122,573)	(154,001)
Total Shareholders' Equity	124,579	90,790
Noncontrolling interest - Class B preference shares of subsidiary	7,011	7,011
Total Equity	131,590	97,801
Total Liabilities and Equity	$ 403,253	$ 408,352

American Overseas Group Limited
Consolidated Statements of Operations
(unaudited)
For the three and nine months ended September 30, 2011 and 2010
(dollars in thousands except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues				
Net premiums earned	$ 4,073	$ 3,618	$ 12,097	$ 11,538
Change in fair value of credit derivatives				
Realized gains (losses) and other settlements	791	909	772	463

Unrealized gains (losses)	33,377	(7,538)	34,501	(3,124)
Net change in fair value of credit derivatives	34,168	(6,629)	35,273	(2,661)
Net investment income	2,425	2,738	7,173	8,657
Net realized gains on sale of investments	1,512	359	2,206	1,666
Total other-than-temporary impairment losses	-	-	-	(32)
Portion of impairment losses recognized in other comprehensive income (loss)	-	-	-	23
Net other-than-temporary impairment losses (recognized in earnings)	-	-	-	(9)
Foreign currency (losses) gains	(519)	958	(7)	(22)
Net gain on extinguishment of redeemable Series A preference shares	-	-	-	11,475
Net gain on extinguishment of long-term debt	-	-	-	15,250
Total revenues	**41,659**	**1,044**	**56,742**	**45,894**
Expenses				
Losses and loss adjustment expenses	9,291	457	12,855	5,189
Acquisition expenses	3,745	1,635	7,201	5,125
Operating expenses	1,689	1,772	5,258	9,411
Interest expense	-	-	-	919
Total expenses	**14,725**	**3,864**	**25,314**	**20,644**
Net income (loss)	**$ 26,934**	**$ (2,820)**	**$ 31,428**	**$ 25,250**
Net income (loss) per common share:				
Basic	$ 1.02	$ (0.11)	$ 1.19	$ 0.96
Diluted	1.02	(0.11)	1.19	0.96
Weighted-average number of common shares outstanding:				
Basic	26,430,509	26,394,435	26,418,151	26,374,799
Diluted	26,480,369	26,394,435	26,491,519	26,374,799

Reconciliation of net income (loss) to operating income (loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Operating Income (Loss)				
Net income (loss) available to common shareholders	$ 26,934	$ (2,820)	$ 31,428	$ 25,250
Less: Realized gains on sale of investments and other-than-temporary impairment losses	(1,512)	(359)	(2,206)	(1,657)
Less: Unrealized (gains) losses on credit derivatives	(33,377)	7,538	(34,501)	3,124
Add back: credit impairment on derivatives	(554)	(1,201)	(398)	633
Less: Foreign currency (gains)	519	(958)	7	22
Less: Gains on debt and preference shares	-	-	-	(26,725)
Operating Income (Loss)	$ (7,990)	$ 2,200	$ (5,670)	$ 647
Net income (loss) per diluted share	$ 1.02	$ (0.11)	$ 1.19	$ 0.96

Less: Realized gains on sale of investments and other-than-temporary impairment losses	(0.06)	(0.01)	(0.08)	(0.06)
Less: Unrealized (gains) losses on credit derivatives	(1.26)	0.29	(1.30)	0.12
Add back: credit impairment on derivatives	(0.02)	(0.05)	(0.02)	0.02
Less: Foreign currency (gains)	0.02	(0.04)	0.00	0.00
Less: Gains on debt and preference shares	0.00	0.00	0.00	(1.01)
Operating income (loss) per diluted share	$ (0.30)	$ 0.08	$ (0.21)	$ 0.03

Reconciliation of book value to operating book value and adjusted operating book value:

	As at Sept 30, 2011	**As at Dec 31, 2010**
Shares outstanding	26,431	26,395
Operating Book Value		
Shareholders' Equity (Book Value)	124,579	90,790
Derivative liability (1)	28,975	63,476
Add back credit impairments on derivatives	(6,068)	(5,670)
Operating Book Value Per Share	5.58	5.63
Noncontrolling interest	7,011	7,011
Unearned premiums (2)	114,487	135,070
Deferred acquisition costs	(45,215)	(54,870)
Present value of installment premiums (3)	13,026	21,011
Unrealized gains on investments	(13,072)	(10,813)
Adjusted Operating Book Value Per Share	$ 8.46	$ 9.32

(1) Represents the unrealized gains/losses portion of the derivative liability.

(2) Includes unearned premium balances on financial guaranty and credit derivative policies. The unearned premiums on financial guaranty policies include the present value of future installment premiums, net of ceding commissions.

(3) Estimated present value of future installments, net of ceding commissions, on policies written in credit derivative form only. At September 30, 2011 and December 31, 2010, the discount rate was 0.96% and 1.26%, respectively.

The Company has posted its third quarter 2011 financial results to its website at www.aoreltd.com under "Investor Information". If you are a shareholder of American Overseas Group Limited and wish to receive a hard copy of the financial statements by mail, please contact:

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