



American Overseas Group Limited, Formerly RAM Holdings Ltd., Announces Fourth Quarter 2011 Net Loss Available to Common Shareholders of \$30.5 Million and an Operating Loss of \$11.0 Million

HAMILTON, Bermuda--(BUSINESS WIRE)-- American Overseas Group Limited (BSX:AORE.BH) (Pink Sheets: AORE.PK) ("AOG" or the "Company") today reported a net loss available to common shareholders of \$30.5 million, or \$11.55 per diluted share, for the fourth quarter ended December 31, 2011. This compares to a net loss available to common shareholders of \$13.5 million, or \$5.10 per diluted share, for the fourth quarter ended December 31, 2010. Net income available to common shareholders for the year ended December 31, 2011 was \$0.9 million, or \$0.34 per diluted share, compared to net income available to common shareholders of \$11.8 million, or \$4.47 per diluted share, for the year ended December 31, 2010 ⁽¹⁾.

During the fourth quarter of 2011, the operating loss, a non GAAP financial measure, was \$11.0 million, or \$4.15 per diluted share, compared to operating income of \$5.2 million, or \$1.97 per diluted share, during the fourth quarter of 2010. The operating loss during the full year 2011 was \$16.6 million, or \$6.29 per diluted share, compared to operating income of \$5.9 million, or \$2.23 per diluted share, for the full year 2010 ⁽¹⁾.

The Company's net income (loss) 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. Please refer to "Explanation of Non-GAAP Financial Measures" below.

Commenting on the financial results, the Company's Chief Executive Officer, David Steel, noted that, "Our 2011 fourth quarter net loss was largely the result of a \$18.9 million unrealized loss within the change in fair value of credit derivatives during the period. As noted in the past, we view the operating loss, which excludes unrealized gains and losses on derivatives, as a better measure of quarterly performance. In the fourth quarter our operating loss suffered from increased losses on our insured financial guaranty portfolio, primarily related to the Company's exposure to Greek sovereign debt, the Chapter 9 bankruptcy filing of Jefferson County, Alabama, and further loss development on US RMBS. We are pleased to note that despite the increase in losses during the second half of 2011, the Company's capital held up well, remaining about the same as at year-end 2010.

"In the fourth quarter of 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."

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 were made to shareholders' equity on the Company's balance sheet as of December 31, 2011, and to the notes to the Company's financial statements, to reflect the changes in the number of issued shares and the par value.

Net income (loss) per share and book value per share increased proportionately in the 2011 periods as a result of the Consolidation because there are fewer common shares outstanding, although the Consolidation had no effect on the Company's aggregate net income (loss) or book value. All share and per share amounts for the comparative 2010 periods included in this earnings release have been adjusted to reflect the change in capital structure as if the Consolidation had occurred in those periods.

Summary of Operating Results

The Company reported a net loss of \$30.5 million for the quarter ended December 31, 2011 and net income of \$0.9 million for

the year then ended.

Earned premiums in the fourth quarter 2011 of \$3.7 million were 29% lower than the \$5.2 million earned in the fourth quarter 2010. After eliminating accelerated premiums from refundings of \$1.3 million and \$1.0 million from total earned premiums in the fourth quarter of 2011 and 2010, respectively, core earned premiums in the fourth quarter 2011 were \$2.4 million, or 43%, lower than the core earned premiums of \$4.2 million during the comparable period in 2010. Earned premiums for the year ended December 31, 2011 were \$15.8 million, including accelerated premiums from refundings of \$4.1 million. Earned premiums for the 2011 year were 6% lower than the \$16.8 million of earned premiums for the 2010 year, which included accelerated premiums from refundings of \$2.5 million. After eliminating accelerated premiums from refundings, earned premiums for the years ended December 31, 2011 and 2010, were \$11.7 million and \$14.3 million, respectively. The decrease in earned premiums in the fourth quarter and full year 2011 as compared to comparable 2010 periods was primarily due to the reduction in ongoing earnings due to commutations and run off of the insured portfolio. The 2010 fourth quarter and full year also benefited from the Company's change in estimate to eliminate the one-month lag in reporting premium and acquisition cost information in the fourth quarter of 2010.

Net change in fair value of credit derivatives totaled a loss of \$18.2 million in the fourth quarter 2011, which was \$0.2 million less than the \$18.4 million loss in the fourth quarter of 2010. Net change in fair value of credit derivatives for the fourth quarters of 2011 and 2010, were comprised of \$0.7 million of realized gains and \$7.0 million of realized losses, respectively, and \$18.9 million and \$11.4 million of unrealized losses on derivatives, respectively. The net unrealized loss in the fourth quarter 2011 was primarily attributable to (i) a decrease in the adjustment for the Company's own non-performance risk of \$17.4 million, and (ii) an increase in gross unrealized losses on credit derivative policies of \$1.5 million, the latter primarily due to the widening of credit spreads related to the US Residential Mortgage-Backed Securities. 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 ASC 820 on the Company's derivative liabilities on its balance sheet was a reduction of approximately \$97.8 million at December 31, 2011. Net change in fair value of credit derivatives was a \$17.0 million gain in the full year 2011 and a \$21.1 million loss in the full year 2010.

Net investment income for the fourth quarter 2011 was \$2.1 million, 28% below the \$2.9 million recorded in the fourth quarter 2010. For the full year 2011, net investment income was \$9.3 million, 19% below the \$11.5 million recorded in the full year 2010. The decrease in investment income in the fourth quarter and year ended December 31, 2011 was primarily due to a decrease in the book yield on the portfolio from 3.4% as of December 31, 2010 to 2.9% as of December 31, 2011.

Realized gains on investments for the fourth quarter 2011, were \$0.1 million compared to \$0.7 million of realized gains for the same period in 2010. For the full years ended December 31, 2011 and 2010, realized gains on investments were \$2.3 million and \$2.4 million, respectively.

During the full year 2010, (i) 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"), and (ii) gains of \$11.5 million were recognized on the repurchase of 15,300 of the Company's Redeemable Series A preference shares (the "Series A Preference Shares"). During the full year 2011, there were no such repurchase activities.

Losses and loss adjustment expenses were \$13.2 million in the fourth quarter 2011, contributing to a loss ratio of 352%, compared to losses and loss adjustment expenses of \$0.5 million and a loss ratio of 10% for the comparable 2010 period. For the full year 2011, losses and loss adjustment expenses were \$26.0 million, contributing to a loss ratio of 164%, compared to losses of \$5.7 million and a loss ratio of 34% for the full year 2010. The increase in the quarter and year ended December 31, 2011 loss ratios was primarily attributable to the Company's exposure to Greek sovereign debt, further adverse development on US residential mortgage backed securities ("RMBS") policies, declining revenues in a print-media whole business securitization and the Chapter 9 bankruptcy filing of Jefferson County, Alabama.

Acquisition expenses were \$3.5 million in the fourth quarter of 2011 compared to \$1.0 million for the comparable 2010 period. Acquisition expenses for the full years 2011 and 2010 were \$10.7 million and \$6.1 million, respectively. The increase in acquisition expenses in the quarter and year ended December 31, 2011 as compared to the respective comparable 2010 periods was primarily due to the write off of \$1.8 million and \$3.8 million of deferred acquisition costs ("DAC") in the fourth quarter and full year 2011, which were considered irrecoverable. The fourth quarter and full year 2010 had also benefited from the early termination of an installment policy, for which the associated DAC had been previously written off as irrecoverable, resulting in a \$1.3 million credit to acquisition expenses. Excluding these items, acquisition expenses are closely related to earned premiums, and the change in acquisition expenses for the quarter and year ended December 31, 2011, as compared to prior year is consistent with the change in earned premiums in the respective periods.

Fourth quarter 2011 operating expenses of \$1.6 million were \$0.8 million, or 33% below the level of operating expenses in the fourth quarter of 2010. For the full years ended December 31, 2011 and 2010, operating expenses were \$6.8 million and \$11.9 million, respectively. The decrease in operating expenses for the year ended December 31, 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) non-recurring 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 of the Company's subsidiary, American Overseas Reinsurance Company Limited (the "Operating Subsidiary").

Balance Sheet

Total assets of \$401.2 million at December 31, 2011 were \$7.2 million, or 2% below the level of total assets at December 31, 2010. This decrease was primarily related to the reduction in DAC with the run off of the Company's financial guaranty reinsurance portfolio and the write off of DAC discussed above. Shareholders' equity of \$93.9 million was \$3.1 million, or 3%, above the level of shareholders' equity at December 31, 2010, primarily due to the net income earned in the full year 2011 and an increase in the unrealized gains on the Company's investment portfolio. Book value per share was \$35.5, an increase of 3% from year-end 2010, when book value per share was \$34.4. Operating book value per share and adjusted operating book value per share, both of which are non-GAAP financial measures, were \$51.6 and \$80.2, respectively, at December 31, 2011, a decrease of 8% and 14%, respectively, from year-end 2010 when operating book value per share and adjusted operating book value per share were \$56.3 and \$93.2, respectively⁽¹⁾.

(1) Prior year per share amounts are restated for the effects of the reverse stock split discussed above

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. 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 regulations 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 0.83% at December 31, 2011, and 1.26% at December 31, 2010);
- d. Unrealized appreciation or depreciation of investments; and

e. Noncontrolling interest in subsidiary — Class B preference shares.

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 CDS contracts. The credit impairments are a non-GAAP financial measure which management believes to be useful to analysts and investors in reviewing the results of our entire portfolio of policies. Management considers credit derivative policies as a normal extension of the Operating Subsidiary's financial guarantee business and reinsurance in substance.

Reconciliations of these non-GAAP financial measures to the most comparable GAAP measures are set forth below.

Information About the Company

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 December 31, 2011 and 2010
(dollars in thousands)

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
<u>Assets</u>		
Investments:		
Fixed-maturity securities held as available for sale, at fair value (Amortized cost: \$261,914 and \$280,807)	\$ 274,809	\$ 291,620
Cash and cash equivalents	13,253	5,718
Restricted cash	49,429	16,722
Accrued investment income	1,593	1,818
Reinsurance balances receivable, net	13,505	17,659
Recoverables on paid losses	6,158	19,231
Deferred policy acquisition costs	41,890	54,870
Deferred expenses	433	521
Other assets	153	193
Total Assets	\$ 401,223	\$ 408,352
 <u>Liabilities and Equity</u>		
Liabilities:		
Loss and loss expense reserve	\$ 80,998	\$ 52,412
Unearned premiums	110,187	133,666
Accounts payable and accrued liabilities	1,121	1,248
Derivative liabilities	48,303	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 December 31, 2011 and 2010)	59,700	59,700
Total Liabilities	300,309	310,551
 Shareholders' Equity:		
Common shares	2,643	2,639
Additional paid-in capital	231,468	231,339
Accumulated other comprehensive income	12,895	10,813
Retained deficit	(153,103)	(154,001)

Total Shareholders' Equity	93,903	90,790
Noncontrolling interest in subsidiary - Class B preference shares	7,011	7,011
Total Equity	100,914	97,801
Total Liabilities and Equity	\$ 401,223	\$ 408,352

American Overseas Group Limited
Consolidated Statements of Operations
(unaudited)

For the three months and year ended December 31, 2011 and 2010
(dollars in thousands except share and per share amounts)

	<u>Three Months Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues				
Net premiums earned	\$ 3,739	\$ 5,225	\$ 15,837	\$ 16,763
Change in fair value of credit derivatives				
Realized gains (losses) and other settlements	667	(6,976)	1,439	(6,513)
Unrealized gains (losses)	(18,905)	(11,414)	15,596	(14,538)
Net change in fair value of credit derivatives	(18,238)	(18,390)	17,035	(21,051)
Net investment income	2,094	2,874	9,266	11,531
Net realized gains on sale of investments	142	723	2,348	2,389
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 gains (losses)	(1)	91	(9)	68
Net gain on extinguishment of redeemable Series A preference shares	-	-	-	11,475
Net gain on extinguishment of long-term debt	-	-	-	15,250
Total revenues	(12,264)	(9,477)	44,477	36,416
Expenses				
Losses and loss adjustment expenses	13,175	548	26,031	5,737
Acquisition expenses	3,512	991	10,712	6,116
Operating expenses	1,578	2,449	6,836	11,860
Interest expense	-	-	-	918
Total expenses	18,265	3,988	43,579	24,631
Net income (loss) available to common shareholders	\$ (30,529)	\$ (13,465)	\$ 898	\$ 11,785

Net income (loss) per common share:

Basic	\$	(11.55)	\$	(5.10)	\$	0.34	\$	4.47
Diluted		(11.55)		(5.10)		0.34		4.47

Weighted average number of common shares outstanding:*

Basic	2,643,088	2,639,456	2,642,136	2,637,978
Diluted	2,643,088	2,639,456	2,647,818	2,638,110

* Shares outstanding and net income (loss) per share for the quarter and year ended December 31, 2011, reflect the effects of a 1 for 10 reverse stock split on November 8, 2011.

For comparative purposes, the outstanding shares and net income (loss) per share for the quarter and year ended December 31, 2010 have been adjusted to reflect the change in capital structure as if the reverse stock split had occurred in those periods.

Reconciliation of net income (loss) to operating income (loss):
(Dollars in thousands except share and per share amounts)

	Three Months Ended December 31,		Year Ended December 31,					
	2011	2010	2011	2010				
Operating income (loss)								
Net income (loss) available to common shareholders	\$	(30,529)	\$	(13,465)	\$	898	\$	11,785
Less: Realized (gains) on sale of investments and other-than-temporary impairment losses		(142)		(723)		(2,348)		(2,380)
Less: Unrealized (gains) losses on credit derivatives		18,905		11,414		(15,596)		14,538
Add back: credit impairment on derivatives		786		8,074		388		8,707
Less: Foreign currency (gains) losses		1		(91)		9		(68)
Less: (Gains) on debt and preference shares		-		-		-		(26,725)
Operating income (loss)	\$	<u>(10,979)</u>	\$	<u>5,209</u>	\$	<u>(16,649)</u>	\$	<u>5,857</u>
Net income (loss) per diluted share	\$	(11.55)	\$	(5.10)	\$	0.34	\$	4.47
Less: Realized (gains) on sale of investments and other-than-temporary impairment losses		(0.05)		(0.27)		(0.89)		(0.90)
Less: Unrealized (gains) losses on credit derivatives		7.15		4.32		(5.90)		5.51
Add back: credit impairment on derivatives		0.30		3.06		0.15		3.30
Less: Foreign currency (gains) losses		0.00		(0.03)		0.00		(0.03)
Less: (Gains) on debt and preference shares		0.00		0.00		0.00		(10.13)
Operating income (loss) per diluted share	\$	<u>(4.15)</u>	\$	<u>1.97</u>	\$	<u>(6.29)</u>	\$	<u>2.23</u>

* Shares outstanding and net income (loss) per share for the quarter and year ended December 31, 2011, reflect the effects of a 1 for 10 reverse stock split on November 8, 2011.

For comparative purposes, the outstanding shares and net income (loss) per share for the quarter and year ended December 31, 2010 have been adjusted to reflect the change in capital structure as if the reverse stock split had occurred in those periods.

Reconciliation of book value to operating book value and adjusted book value:
(thousands except per share amounts)

As at

As at

	<u>Dec 31, 2011</u>	<u>Dec 31, 2010</u>
Shares outstanding ⁽⁴⁾	2,643	2,639
<u>Operating Book Value</u>		
Shareholders' Equity (Book Value)	93,903	90,790
Derivative liability ⁽¹⁾	47,880	63,476
Credit impairments on derivatives	(5,283)	(5,670)
Operating book value per share	51.64	56.30
Noncontrolling interest in subsidiary - Class B preference shares	7,011	7,011
Unearned premiums ⁽²⁾	111,123	135,070
Deferred acquisition costs	(41,890)	(54,870)
Present value of installment premiums ⁽³⁾	12,117	21,011
Unrealized gains on investments	(12,895)	(10,813)
Adjusted operating book value per share	\$ 80.20	\$ 93.20

(1) Represents only 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 December 31, 2011 and 2010, the discount rate was 0.83% and 1.26%, respectively.

(4) Shares outstanding and book values per share for the quarter and year ended December 31, 2011 reflect the effects of a 1 for 10 reverse stock split on November 8, 2011. For comparative purposes, the outstanding shares and book values per share for the quarter and year ended December 31, 2010 have been adjusted to reflect the change in capital structure as if the reverse stock split had occurred in those periods.

The Company has posted its 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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