



AMERICAN OVERSEAS GROUP LIMITED

NINE MONTH REPORT

SEPTEMBER 30, 2011

American Overseas Group Limited

**Unaudited Consolidated Financial Statements
For the Period Ended
September 30, 2011**



American Overseas Group Limited
Consolidated Balance Sheets
(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Investments: Fixed-maturity securities held as available for sale, at fair value (amortized cost of \$270,686,602 and \$280,807,063)	\$ 283,758,606	\$ 291,620,381
Cash and cash equivalents	19,703,994	5,718,195
Restricted cash	32,565,006	16,722,247
Accrued investment income	1,756,313	1,817,815
Reinsurance balances receivable, net	13,376,690	17,659,316
Recoverables on paid losses	6,063,576	19,231,274
Deferred policy acquisition costs	45,215,048	54,870,327
Deferred expenses	455,322	520,640
Other assets	358,359	192,853
Total assets	\$ 403,252,914	\$ 408,353,048
LIABILITIES AND EQUITY		
Liabilities:		
Losses and loss expense reserve	\$ 68,187,601	\$ 52,411,626
Unearned premiums	113,403,672	133,666,192
Accounts payable and accrued liabilities	1,042,884	1,248,172
Derivative liabilities	29,328,294	63,524,831
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)	59,700,000	59,700,000
Total liabilities	271,662,451	310,550,821
Shareholders' equity:		
Common shares	2,643,051	2,639,456
Additional paid-in capital	231,437,274	231,339,583
Accumulated other comprehensive income	13,072,004	10,813,318
Retained deficit	(122,572,721)	(154,000,985)
Total shareholders' equity	124,579,608	90,791,372
Noncontrolling interest – Class B preference shares of subsidiary	7,010,855	7,010,855
Total equity	131,590,463	97,802,227
Total liabilities and equity	\$ 403,252,914	\$ 408,353,048

American Overseas Group Limited
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues:				
Net premiums earned	\$ 4,073,105	\$ 3,617,928	\$ 12,097,439	\$ 11,538,138
Change in fair value of credit derivatives:				
Realized gains (losses) and other settlements	791,067	909,248	772,183	463,097
Unrealized gains (losses)	33,376,697	(7,538,422)	34,501,101	(3,124,185)
Net change in fair value of credit derivatives	34,167,764	(6,629,174)	35,273,284	(2,661,088)
Net investment income	2,424,484	2,738,265	7,172,727	8,657,498
Net realized gains on sale of investments	1,512,325	359,191	2,206,176	1,665,528
Total other-than-temporary impairment losses	—	—	—	(32,500)
Portion of impairment losses recognized in other comprehensive income (loss)	—	—	—	23,504
Net other-than-temporary impairment losses (recognized in earnings)	—	—	—	(8,996)
Foreign currency (losses) gains	(519,351)	957,411	(7,752)	(22,353)
Net gain on extinguishment of redeemable Series A preference shares	—	—	—	11,475,000
Net gain on extinguishment of long-term debt	—	—	—	15,250,000
Total revenues	41,658,327	1,043,621	56,741,874	45,893,727
Expenses:				
Loss and loss adjustment expenses	9,290,987	457,410	12,855,399	5,188,861
Acquisition expenses	3,744,639	1,634,555	7,200,625	5,125,511
Operating expenses	1,688,822	1,771,758	5,257,586	9,410,682
Interest expense	—	—	—	918,576
Total expenses	14,724,448	3,863,723	25,313,610	20,643,630
Net income (loss)	\$ 26,933,879	\$ (2,820,102)	\$ 31,428,264	\$ 25,250,097
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

American Overseas Group Limited
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net income (loss)	\$ 26,933,879	\$ (2,820,102)	\$ 31,428,264	\$ 25,250,097
Other comprehensive income				
Change in unrealized fair value of investments	3,559,405	3,977,235	4,464,862	12,137,638
Less: Reclassification adjustment for net realized gains included in net income (loss)	(1,512,325)	(359,191)	(2,206,176)	(1,665,528)
Less: Net other-than-temporary impairment losses (recognized in earnings)	—	—	—	8,996
Portion of impairment losses recognized in other comprehensive income	—	—	—	(23,504)
Other comprehensive income	2,047,080	3,618,044	2,258,686	10,457,602
Comprehensive income for the period	\$ 28,980,959	\$ 797,942	\$ 33,686,950	\$ 35,707,699

American Overseas Group Limited
Consolidated Statements of Equity and Retained Deficit

(unaudited)

	<u>Share Capital</u>	<u>Noncontrolling interest in subsidiary</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income</u>	<u>Retained deficit</u>	<u>Total</u>
Balance, December 31, 2010	\$ 2,639,456	\$ 7,010,855	\$ 231,339,583	\$ 10,813,318	\$ (154,000,985)	\$ 97,802,227
Share issuance	3,595	—	(3,595)	—	—	—
Share based compensation	—	—	101,286	—	—	101,286
Net income	—	—	—	—	31,428,264	31,428,264
Non credit component of impairment losses on available-for-sale securities	—	—	—	—	—	—
Net change in unrealized gains and losses on available-for-sale securities	—	—	—	2,258,686	—	2,258,686
Balance, September 30, 2011	<u>\$ 2,643,051</u>	<u>\$ 7,010,855</u>	<u>\$ 231,437,274</u>	<u>\$ 13,072,004</u>	<u>\$ (122,572,721)</u>	<u>\$ 131,590,463</u>

American Overseas Group Limited
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income for the period	\$ 31,428,264	\$ 25,250,097
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realized gains on sale of investments	(2,206,176)	(1,665,528)
Net other-than-temporary impairment losses recognized in earnings	—	8,996
Foreign currency (gains) losses on revaluation	12,314	11,541
Net unrealized (gains) losses on credit derivatives	(34,501,101)	3,124,185
Net gain on extinguishment of redeemable preference shares	—	(11,475,000)
Net gain on extinguishment of debt	—	(15,250,000)
Depreciation and amortization	82,049	891,698
Amortization of debt discount	—	89,399
Amortization of bond premium and discount	312,005	456,591
Share based compensation	101,286	343,469
Changes in assets and liabilities:		
Accrued investment income	61,502	(1,284)
Reinsurance balances receivable	4,270,312	2,195,080
Recoverables on paid losses	13,167,698	(5,890,166)
Deferred policy acquisition costs	9,655,279	5,093,088
Other assets	(182,237)	(77,890)
Losses and loss adjustment expenses	15,775,975	(4,672,208)
Unearned premiums	(20,262,520)	(11,732,337)
Derivative liability	304,564	1,782,471
Accounts payable, accrued liabilities and interest payable	(205,288)	(2,477,316)
Net cash provided by (used in) operating activities	17,813,926	(13,995,114)
Cash flows from investing activities:		
Purchases of investments	(39,885,148)	(73,651,418)
Proceeds from sales of investments	35,378,043	85,345,201
Proceeds on maturities of investments	16,521,736	20,911,988
Net change in restricted cash	(15,842,758)	1,220,624
Purchases of fixed assets	—	(7,566)
Net cash (used in) provided by investing activities	(3,828,127)	33,818,829
Cash flows from financing activities:		
Repurchase of preference shares	—	(3,825,000)
Repurchase of long-term debt	—	(19,750,000)
Repurchase of noncontrolling interest	—	(1,700,000)
Net cash used in financing activities	—	(25,275,000)
Net increase (decrease) in cash and cash equivalents	13,985,799	(5,451,285)
Cash and cash equivalents – Beginning of period	5,718,195	9,311,110
Cash and cash equivalents – End of period	\$ 19,703,994	\$ 3,859,825
Supplemental cash flow disclosure:		
Interest paid on long-term debt	\$ —	\$ 1,537,326

American Overseas Group Limited

Explanatory notes

The interim unaudited consolidated financial statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (“US GAAP”). These statements should be read in conjunction with the audited consolidated financial statements and notes for the period ended December 31, 2010 for American Overseas Group Limited, formerly RAM Holdings Ltd. (“AOG” or the “Company”), which are posted on the Company’s website and can be found at www.aoreltd.com under “investor information”.

Name Change

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”).

Commutations and Settlements:

Settlement Agreement

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 included 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.

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 be increased 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income (loss)	\$ 26,933,879	\$ (2,820,102)	\$ 31,428,264	\$ 25,250,097
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.

Litigation

On April 11, 2011, a civil suit was filed with the United States District Court, Central District of California, Southern Division by Twenty-Nine Palms Enterprises Corporation ("29 Palms"), one of the holders of the Class B Preference Shares of the Operating Subsidiary. The complaint alleged certain violations of the Securities Exchange Act of 1934, Rule 10b-5 thereunder and certain California securities laws, and fraud. The complaint sought undisclosed monetary damages, rescission, punitive damages and attorneys' fees. Effective October 4, 2011, a Tolling Agreement (the "Tolling Agreement") was entered into between the Company, the Operating Subsidiary and 29 Palms. The Tolling Agreement provides that, within five business days of the effective date of the Tolling Agreement, 29 Palms will dismiss the actions against the Company and the Operating Subsidiary without prejudice and that, should 29 Palms subsequently seek to assert claims against the Operating Subsidiary and/or the Company related to such actions, neither the Operating Subsidiary nor the Company will oppose the claims based on the statute of limitations or any other time-based defense, based upon the passage of time from April 11, 2011 to the date that such claim is filed. The Operating Subsidiary also agreed not to oppose such claims based on lack of personal jurisdiction or improper venue. The Tolling Agreement is effective until October 4, 2013 and can be terminated by any party with 60 days' notice. On October 6, 2011, 29 Palms filed a voluntary dismissal of the actions against the Operating Subsidiary and the Company without prejudice.

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 September 30, 2011 were 748,074 shares (prior to the date of and therefore without taking effect of the Consolidation discussed above).

Equity Compensation of Executive Officers and Directors

The following table sets forth the aggregate number of shares underlying option awards outstanding at September 30, 2011 (prior to the date of and therefore without taking effect of the Consolidation discussed above), for each director who has received option awards:

Name	Shares Underlying Options at Sept. 30, 2011 (#) (Outstanding)	Shares Underlying Options at Sept. 30, 2011(#) (Exercisable)	RSU's: Number of Shares that Have Not Vested (#)
Edward F. Bader	66,010	28,300	34,706
David L. Boyle	63,410	25,700	34,706
Clement S. Dwyer	45,210	7,500	34,706
Steven J. Tynan	45,210	7,500	34,706
Debra J. Roberts	12,420	—	10,580

Share options granted to the directors under the Company's 2001 Stock Option Plan prior to 2006 vest quarterly over a three-year period. Share options granted to directors beginning in 2006 under the Company's 2006 Equity Plan vest in four equal annual installments on the first four anniversaries of the date of grant. Restricted share units vest annually over a four year period.

The following table sets forth equity awards granted to executive officers of the Company outstanding at September 30, 2011 (prior to the date of and therefore without taking effect of the Consolidation discussed above):

Name	Shares Underlying Options at Sept. 30, 2011 (#) (Outstanding)	Shares Underlying Options at Sept. 30, 2011(#) (Exercisable)	RSUs: Number of Shares that Have Not Vested (#)
David K. Steel	451,113	386,278	13,200

Share options granted to executive officers prior to May 2006 were awarded under the Company's 2001 Stock Option Plan and vest in 5% increments at the end of each quarter, beginning with the quarter in which the grant occurred. The Company's 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 the Company's 2001 Stock Option Plan. Share options granted beginning in May 2006 were awarded under the Company's 2006 Equity Plan, and vest in four equal annual installments on the first four anniversaries of the date of grant. Restricted share units vest annually over a four year period.

There have been no options exercised during the nine months ended September 30, 2011.

Director Changes

David L. Boyle did not stand for re-election to the Board of Directors of the Company at the Annual General Meeting of shareholders held on September 28, 2011, and Debra J. Roberts was duly elected to the Board of Directors of the Company on that date.

Amendments to the Bye-Laws of the Company

At the Annual General Meeting of shareholders held on September 28, 2011, the shareholders approved certain amendments to Bye-Laws 15 and 20 of the Company's Bye-Laws, which are fully described in the Company's Proxy Statement dated August 19, 2011.

American Overseas Group Limited Corporate Information

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Investor Information

Information about American Overseas Group Limited, including all quarterly earnings releases and reports, can be accessed via the Company's website at www.aoreltd.com under "Investor Information".

Requests for copies of the American Overseas Group Limited 2011 quarterly reports may be made by contacting the Secretary of American Overseas Group at the Corporate Headquarters address above or info@aoreltd.com.

Exchange Listing

American Overseas Group Limited's common shares are listed on the Bermuda Stock Exchange (BSX) located at:

Phase 1 – Third Floor, Washington Mall
Church Street
Hamilton, HM 11 Bermuda
441-292-7212 or -7213
www.bsx.com

Transfer Agent

BNY Mellon Shareowner Services

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Independent Registered Auditors

Deloitte & Touche Ltd.