AMERICAN OVERSEAS GROUP LIMITED

2011 ANNUAL REPORT

American Overseas Group Limited

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Dear Shareholders, Policyholders and Other Stakeholders:

Throughout 2011 we continued to pursue our strategy to reduce risk and expenses and to preserve capital as we endured the challenging worldwide economy. Our company sustained large losses on a few, relatively unique credits in our reinsured portfolio, along with continued emergence of new RMBS losses, yet we maintained our GAAP net worth at about $100 million and the Bermuda statutory capital position of our operating subsidiary at about $150 million, nearly the same levels where we started the year. As a result, we continue to provide substantial claims paying capacity to our policyholders.

Primarily due to our insured portfolio loss development, we reported full year net income available to common shareholders of $0.9 million and a net operating loss of $16.6 million. Insured portfolio losses in 2011 were largely attributable to two exposures, the sovereign debt of The Hellenic Republic of Greece and a print advertising whole business securitization. The losses recognized on these two exposures were $8.7 million and $5.9 million, respectively. In addition, losses on US residential mortgage-backed securities ("US RMBS") continued to emerge as we incurred a total of $7.2 million of losses in this sector.

In 2011 we had net earned premiums of $15.8 million and investment income of $9.3 million as the core assets of our company continue to generate ongoing revenue. Meanwhile, operating expenses were reduced by $5.1 million, a 43% decline from $11.9 million in 2010, to $6.8 million in 2011.

Risk reduction efforts, combined with ordinary insured portfolio run-off, resulted in a decline in our total outstanding insured portfolio over the year from $18.5 billion to $15.7 billion, a 15% reduction of par outstanding. Most of the portfolio proportional decline was in structured finance exposures, which resulted in the lower-risk public finance segment growing from 75.9% to 79.1% of the portfolio at year end 2011. In addition, our total outstanding US RMBS declined 17% over the year, from $465 million to $386 million. With regard to RMBS, the Assured Guaranty Ltd. settlement with Bank of America relating to RMBS representations and warranties confirmed the value of the recoverable we had established by converting it into cash, while RMBS representation and warranty litigation activity by our ceding companies increased as well.

In addition to expense and risk reduction, in 2011 we continued to focus on maintenance of effective operations, staff stability and sound corporate governance. Reid Street Services Ltd. ("RSSL") provides all the staff to support our operating activities (other than myself) while charging for services at cost under a management agreement we entered into with RSSL and its parent company, Orpheus Group Ltd., in May of 2010. The RSSL management agreement is anticipated to contribute to further cost reduction over time. Essentially, this agreement converts fixed costs to variable costs that may decline over time with the run-off of our financial guaranty reinsurance book.

The composition, credit quality and liquidity of our investment portfolio remains quite strong and consists predominantly of US government and agency obligations as shown in our Operating Supplement. We have kept the duration relatively short (2.2 years) in order to reduce interest rate risk and provide for claims payments and/or potential commutations.

As discussed previously, we continue to evaluate the adequacy and availability of our capital to support writing short-term, non-catastrophe, property/casualty reinsurance business in order to enhance overall shareholder value. Although we have made significant progress in researching this market opportunity and developing a business plan, further work needs to be done to obtain regulatory approval to enter the business.

Our objectives for 2012 are as follows:

- Continue to run-off our financial guaranty exposure with a focus on commuting exposures only if commutation is economical or reduces troubled exposures and loss volatility.

- Further reduce expenses while maintaining effective operations, with particular focus on achieving cost reduction through the RSSL management agreement.

- Continue to work collaboratively with our regulators to obtain regulatory approval to write short-tail, non-catastrophe property/casualty reinsurance.

I would like to thank all of our stakeholders for their continued support of our company; and, in particular, I would like to thank the staff of RSSL for their dedication, hard work and camaraderie throughout 2011.

Sincerely,

David K. Steel

President and Chief Executive Officer

Business

American Overseas Group Limited, formerly RAM Holdings Ltd. ("AOG"), and American Overseas Reinsurance Company Limited, formerly RAM Reinsurance Company Ltd. ("AORE" or the "Operating Subsidiary") and, together with AOG, the "Company", "we", "us" or "our", were incorporated on January 28, 1998, under the laws of Bermuda.

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 trade on the Pink Sheets. In addition, AOG obtained a primary listing on the Bermuda Stock Exchange effective May 14, 2009.

AORE is a Bermuda-based company whose principal activity is the reinsurance of financial guarantees of public finance and structured finance debt obligations insured by monoline financial guaranty companies (the "primary insurers" or the "primaries"). We refer to the primaries that reinsured with AORE as "ceding companies". AORE has provided reinsurance through treaty and facultative agreements that it maintains with each of its remaining ceding companies. Financial guaranty reinsurance written by AORE generally provided for guarantees of scheduled principal and interest payments on an issuer's obligation in accordance with the obligation's original payment schedule and, in rare circumstances, such amounts are payable on an accelerated basis. AORE no longer writes new financial guaranty business.

Business strategy

The unprecedented deterioration in the U.S. housing market which began in the latter half of 2007, and the resulting lack of liquidity in the capital markets had a substantial adverse impact on the financial guaranty industry generally and the Company in particular. As a result of these adverse developments and the downgrades and subsequent withdrawal of the Company's ratings by Standard & Poor's Ratings Services ("S&P") and by Moody's Investors Service ("Moody's"), the Company has not renewed its reinsurance treaties with the primaries or written any new financial guaranty business since 2009.

In response to the economic and rating events referenced above, the Company continued its efforts through 2011, which it began in 2008, to reduce the volatility of its insured portfolio, to reduce its insured risk exposure, to preserve its capital position, to deleverage its balance sheet and to reduce its expenses. The following summarizes the Company's achievements and plans:

- Insured portfolio run off: Since 2008, the Company has commuted a significant portion of its insured portfolio, including exposures in troubled sectors such as US residential mortgage-backed securities ("RMBS"), asset-backed collateralized debt obligations ("CDOs") backed by RMBS and CDOs backed by commercial mortgage-backed securities ("CMBS"). The Company would continue to consider commutations with its ceding companies at acceptable prices. In addition, the Company has pursued legal actions against its ceding companies in cases where the Company disputes the validity of cessions made under its treaties or ceded losses. The Company is continuing to run off its existing book of business, which could take many years to accomplish, as the longest stated remaining maturity of insured risk in its insured portfolio is approximately 56 years. The run off could be completed sooner if all of the insured portfolio is recaptured by the ceding companies or commuted prior to such maturity.

- Deleveraging and Dividends: During the first half of 2009, the Company completed a common share repurchase program and repurchased $5.0 million of its Senior Notes due 2024 ("Senior Notes"). During the first quarter of 2010, the Company completed a tender offer for its Non-Cumulative Preference Shares, Series A (the "Series A Preference Shares"), pursuant to which 15,300 shares were tendered out of the 75,000 shares outstanding; the Series A Preference Shares are mandatorily redeemable in 2066. The Company also repurchased $10.0 million and $25.0 million of its Senior Notes during the first and second calendar quarters of 2010, respectively. In addition, during the first quarter of 2010, AORE completed a tender offer for its perpetual Class B Preference Shares (the "Class B Preference Shares" and, together with the Company's Series A Preference Shares, the "Preference Shares"), pursuant to which 68.00 shares were tendered out of the 500.01 shares outstanding. The Company does not intend to actively pursue

repurchases of any additional Preference Shares at this time, but may consider offers presented to the Company if economical and depending on available capital and liquidity.

The dividends on both the Series A Preference Shares and the Class B Preference Shares, were suspended in 2009. 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 through the latest completed dividend period on all Series A Preference Shares have been paid. The Company has no plans at this time to liquidate, pay common share dividends or to repurchase any of its common shares.

- Reducing expenses: The Company has significantly reduced its operating expenses since 2009. In 2009 the Company (i) de-listed from the NASDAQ and de-registered its securities under the Securities Exchange Act of 1934, (ii) requested the withdrawal of AORE's financial strength ratings from Moody's and S&P, (iii) cancelled AORE's bank soft capital facilities and (iv) reduced the size of both the AOG and AORE Boards to five members from eleven. The Company also completed a number of redundancies throughout 2009 and the beginning of 2010 to reduce staff costs. On May 1, 2010, the Company, AORE, Reid Street Services Ltd. ("RSSL") and Orpheus Group Ltd. entered into a Management Agreement whereby RSSL was contracted to provide to the Company insurance management and administrative services. The fees payable to RSSL pursuant to the Management Agreement represent an allocation of the cost of the services and leasehold space provided by RSSL to AOG and AORE without a profit component. The RSSL management agreement is anticipated to contribute to further cost reduction over time.

- Capital preservation and new business: The Company has not written any financial guaranty business since 2009 and does not intend to write any new financial guaranty business in the future. The Company is considering writing short tail, non-catastrophe, property/casualty business, which the Company believes would complement the Company's long tail financial guaranty business and enhance earnings, thereby further supporting the Company's overall capital position. Any new business undertaken is subject to regulatory approval.

- Name change: In connection with the Company's new business focus referenced above and to reflect the run-off of the financial guaranty business line, on December 2, 2011, as previously approved by the Company's shareholders, AOG changed its name from RAM Holdings Ltd. to American Overseas Group Limited and the name of RAM Reinsurance Company Ltd., to American Overseas Reinsurance Company Limited.

There can be no assurance that the strategies that have been implemented or that will be pursued in the future will improve the Company's business, financial condition, liquidity or results of operations or will not have a material adverse effect on the Company.

Selected Five Year Financial Data

The following financial information for the five years ended December 31, 2011, has been derived from AOG's Consolidated Financial Statements:

	2011	2010	2009	2008	2007
		(Dollars in thousands, unless indicated otherwise)			
Statement of Operations Data:					
Net premiums earned	15,837	16,763	26,735	68,577	51,005
Net change in fair value of credit derivatives	17,035	(21,051)	38,780	7,968	(171,806)
Net investment income	9,266	11,531	14,431	29,358	33,111
Net realized investment gains (losses)	2,348	2,380	3,810	(2,356)	(3,604)
Foreign currency (losses) gains	(9)	68	473	(51)	37
Net gain on extinguishment of long-term debt and redeemable series A preference shares	—	26,725	3,403	—	—
Net unrealized gain (loss) on other financial instruments	—	—	(1,197)	7,754	35,330
Total revenues	44,477	36,416	86,435	111,250	(55,927)
Loss and loss adjustment expenses	26,031	5,737	20,684	214,828	48,026
Acquisition expenses	10,712	6,116	18,540	30,576	18,418
Operating expenses	6,836	11,860	17,526	16,930	13,373
Interest expense	—	918	2,504	8,375	8,375
Total expenses	43,579	24,631	59,254	270,709	88,192
Net income (loss)	$ 898	$ 11,785	$ 27,181	$ (159,459)	$ (144,119)
Non-controlling interest – dividends	—	—	(922)	—	—
Net income (loss) available to common shareholders.	$ 898	$ 11,785	$ 26,259	$ (159,459)	$ (144,119)
Earnings per share					
Basic	0.34	4.47	9.80	(58.50)	(52.90)
Diluted	0.34	4.47	9.80	(58.50)	(52.90)
Balance Sheet Data:					
Investments and cash	337,491	314,060	$ 357,976	$ 438,938	$ 717,037
Reinsurance balance receivable, net	13,505	17,659	22,345	1,115	3,645
Deferred policy acquisition costs	41,890	54,870	61,900	74,795	87,304
Total assets	401,223	408,352	457,826	574,282	860,265
Losses and loss expense reserve	80,998	52,412	56,672	95,794	63,798
Unearned premiums	110,187	133,666	153,430	158,594	239,957
Unsecured senior notes	—	—	35,000	40,000	40,000
Redeemable series A preference shares	59,700	59,700	75,000	75,000	75,000
Derivative liabilities	48,303	63,525	50,135	85,354	180,589
Total liabilities	300,309	310,551	373,906	484,924	607,953
Accumulated other comprehensive income	12,895	10,813	7,400	6,331	10,888
Non-controlling interest Class B preference shares of subsidiary	7,011	7,011	8,114	—	—
Shareholders' equity	93,903	90,790	75,806	89,358	252,313
Total equity	100,914	97,801	83,920	89,358	252,313
Book value per share	$ 35.53	$ 34.40	$ 28.80	$ 32.79	$ 92.63

(1) Certain reclassifications have been made to the prior year's amounts to conform to the current year's presentation.
(2) For comparative purposes earnings per share and book value per share have been retroactively restated as of December 31, 2010 and prior to reflect the results of a 1 for 10 reverse stock split which was executed on November 8, 2011.

	2011	2010	2009	2008	2007
		(Dollars in thousands, unless indicated otherwise)			
Financial Ratios (Based on U.S. GAAP Income Statement Data):					
Loss and loss adjustment expense ratio[1]	164.4%	34.2%	77.4%	313.3%	94.2%
Acquisition expense ratio[2]	67.6%	36.5%	69.3%	44.6%	36.1%
Operating expense ratio[3]	43.2%	70.8%	65.6%	24.7%	26.2%
Combined ratio[4]	275.2%	141.5%	212.3%	382.6%	156.5%
Non-GAAP Supplemental Data:					
Net par outstanding (in millions)	15,668	18,506	20,361	29,957	45,394
Net debt service outstanding (in millions)	24,770	29,448	32,601	50,737	71,911

1 Calculated by dividing loss and loss adjustment expenses by net earned premiums
2 Calculated by dividing acquisition expenses by net earned premiums
3 Calculated by dividing operating expenses by net earned premiums
4 Loss, acquisition and operating expense ratio may not total combined ratio due to rounding

Management's analysis of results of operations

Year ended December 31, 2011, compared to December 31, 2010:

Net income available to common shareholders: Net income available to common shareholders for the full year 2011 was $0.9 million, or $0.34 per diluted share, compared to $11.8 million, or $4.47 per diluted share, for the full year 2010.

The net income available to common shareholders of $0.9 million for the year ended December 31, 2011, was impacted by the following significant factors:

- Loss and loss expenses of $26.0 million, primarily attributable to (i) further adverse development on US RMBS exposure of $7.2 million including increased reserves due to declining discount rates used to discount loss reserves, (ii) the Company's exposure to Greek sovereign debt resulting in incurred losses of $8.7 million, (iii) $5.9 million of incurred losses due to declining revenues in a print-media whole business securitization and (iv) incurred losses of $3.1 million on the Chapter 9 bankruptcy filing of Jefferson County, Alabama.
- A write off of $3.8 million in Deferred Acquisition Costs ("DAC") which were not considered recoverable.
- Unrealized gains on credit derivatives of $15.6 million, primarily attributable to an increase in the adjustment for AORE's own non-performance risk, offset by the increase in gross unrealized losses caused by the widening of credit spreads in the market, particularly RMBS.
- A fall in operating expenses 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 AOG's Series A Preference Shares and a portion of the Class B Preference Shares of AORE.

Net income of $11.8 million for the year ended December 31, 2010 was significantly impacted by the following factors:

- A gain on the repurchase of the Company's Series A Preference Shares of $11.5 million and gains on the repurchase of the Company's remaining Senior Notes of $15.3 million.
- These gains were offset by unrealized losses on credit derivatives of $14.5 million, primarily due to (i) a decrease in the adjustment for AORE's own non-performance risk partially offset by (ii) the narrowing credit spreads in the market resulting in a decrease in gross unrealized losses.

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 report have been adjusted to reflect the change in capital structure as if the Consolidation had occurred in those periods.

Commutations and Settlements:

The following commutations and settlements were completed during the years ended December 31, 2011 and 2010, which affected net income as follows:

Effective September 14, 2011, AORE 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

AORE 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 to (i) reduce gross written premiums and unearned premiums by $0.9 million, resulting in no impact on earned premiums, and (ii) decrease losses and loss adjustment expenses by $0.1 million, resulting in an overall gain to net income at the time of termination of $0.1 million.

Effective June 30, 2011, AORE entered into a Termination and Release Agreement with one of its ceding companies (the "Cedent"). The agreement provided, among other things, for AORE to make a $0.7 million payment to terminate the reinsurance with respect to several policies previously assumed from the Cedent, with par in-force of $300.4 million, and to mutually terminate all liabilities and obligations with respect to that reinsurance. The effect of the termination on the Company's results of operations was to (i) reduce gross written premiums and unearned premiums by $6.9 million, resulting in no impact on earned premiums, and (ii) decrease losses and loss adjustment expenses by $0.5 million, resulting in an overall gain to net income at the time of termination of $0.5 million.

Effective April 15, 2011, AORE entered into a Settlement Agreement (the "Settlement Agreement") with one of its ceding companies. The Settlement Agreement provided, among other things, for the AORE to make a $2.3 million payment to commute the reinsurance with respect to certain policies written in credit derivative form with par in-force as of December 31, 2010 of $129.8 million. Under the Settlement Agreement, each party was released from all liabilities and obligations under the commuted reinsurance. The effect of the Settlement Agreement on the Company's results of operations was to decrease the net change in fair value of credit derivatives by a loss of $1.4 million (including a $2.3 million realized loss).

On April 15, 2011, Assured Guaranty Ltd. and its subsidiaries ("Assured") announced that they had reached a settlement with Bank of America Corporation and its subsidiaries (the "Assured Settlement") regarding their liabilities with respect to various RMBS transactions insured by Assured, including claims relating to reimbursement for breaches of representations and warranties. A number of AORE's policies assumed from Assured are affected by this settlement. During 2011, AORE has received and accrued $23.9 million from Assured in relation to this settlement and anticipates it will receive the remaining payments (totaling approximately $1.3 million) by the middle of 2012.

On December 22, 2010, the AORE entered into a Settlement, Reassumption and Release Agreement (the "Commutation Agreement") with one of its ceding companies. The Commutation Agreement provided, among other things, for the AORE to make a $10.3 million payment to commute seven policies previously assumed from the ceding company, with par in-force of $123.0 million, primarily relating to RMBS securities. In return, each party was released from all liabilities and obligations of the commuted policies. The effect of the Commutation Agreement on the Company's results of operations was to (i) reduce gross written premiums and unearned premiums by $0.1 million, resulting in no impact on earned premiums, (ii) increase net change in fair value of credit derivatives by a gain of $11.1 million (including an $8.4 million realized loss) and (iii) increase losses and loss adjustment expenses of $0.4 million, resulting in an overall gain to net income at the time of commutation of $10.7 million.

Summary of results of operations:

Net Earned Premiums: Net earned premiums in 2011 of $15.8 million were 6% lower than the $16.8 million of net earned premiums in 2010. After eliminating accelerated premiums from refundings of $4.1 million from total earned premiums, net earned premiums in 2011 were $11.7 million, 18% lower than in 2010, which included accelerated premiums from refundings of $2.5 million. The decline in the 2011 net earned premiums after refundings primarily reflected the reduction in ongoing earnings due to the prior years' commutations and the run off of the in-force portfolio. The 2010 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: Net change in fair value of credit derivatives consists of the following relating to our credit derivative policies:

	Years ended December 31,	
	2011	**2010**
Change in fair value of credit derivatives:		
Credit derivative premiums received and receivable	$ 5,958,756	$ 7,487,248
Expenses on credit derivatives	(2,101,950)	(2,722,922)
Losses and loss adjustment expenses	(2,417,668)	(11,277,139)
Realized gains (losses) and other settlements	1,439,138	(6,512,813)
Unrealized gains (losses)	15,595,809	(14,537,866)
Net change in fair value of credit derivatives	$ 17,034,947	$ (21,050,679)

Net change in fair value of credit derivatives totaled a gain of $17.0 million in 2011, which was $38.1 million above the $21.1 million loss in 2010. Net change in fair value of credit derivatives for the years ended December 31, 2011 and 2010 were comprised of $15.6 million and $(14.5) million of unrealized gains (losses) on derivatives, respectively, and $1.4 million and $(6.5) million of realized gains (losses), respectively. The increase in the unrealized gains in 2011 is primarily due to the increase in the adjustment for the Company's own non-performance risk of $26.5 million offset by the increase in the gross unrealized losses of $10.9 million. Gross unrealized losses on credit derivative policies increased in 2011 primarily due to the deterioration in pricing across the portfolio and particularly on US RMBS policies.

Gross unrealized gains (losses) on credit derivatives in 2011 and 2010 are offset by the adjustment for the Company's own non-performance risk in accordance with fair value accounting standards. The effect of this adjustment for the Company's own non-performance risk was a reduction in the Company's derivative liability of approximately $97.8 million and $71.3 million at December 31, 2011 and 2010, respectively.

Realized gains (losses) and other settlements consists of credit derivative premiums received and receivable, which represents premium income relating to credit default swap policies, net of acquisition expenses and loss and loss adjustment expenses on those policies. Included within realized gains (losses) and other settlements were premiums received and receivable of $6.0 million in 2011, a decrease of $1.5 million from the $7.5 million in 2010. The decrease is primarily related to commutations and the run-off of the Company's insured portfolio. Included within realized losses in 2011 and 2010 was $2.3 million and $8.4 million, respectively, of realized losses associated with the Settlement Agreement and Commutation Agreement discussed above.

Net Investment Income: Net investment income for 2011 was $9.3 million, 19% below the $11.5 million recorded in 2010. The decrease in investment income in 2011 compared to 2010, was primarily the result of a decline in the book yield on the invested assets from 3.4% as of December 31, 2010 to 2.9% as of December 31, 2011.

Net Realized Gains on Sale of Investments and Net Other-Than-Temporary Impairment Losses: Net realized gains on sale of investments for the year ended December 31, 2011 were $2.3 million compared to $2.4 million for 2010, offset by nil and immaterial other-than-temporary impairment losses, respectively. During the year ended December 31, 2010, the Company recognized immaterial other-than-temporary impairments on an investment with subprime exposure.

*Net Gain on Extinguishment of Redeemable preference shares and Deb*t: During the year ended December 31, 2010 the Company purchased $35.0 million aggregate principal amount of its remaining Senior Notes for $19.7 million, realizing a gain of $15.3 million. During the year ended December 31, 2010 the Company purchased $15.3 million of its Series A Preference Shares for $3.8 million, realizing a gain of $11.5 million. There were no such repurchase activities during the year ended December 31, 2011.

Loss and Loss Adjustment Expenses: Loss and loss adjustment expenses for the year ended December 31, 2011 were $26.0 million, or a loss ratio of 164%. The increased loss ratio in 2011, was primarily attributable to (i) further adverse development on US RMBS exposure of $7.2 million including increased reserves due to declining discount rates used to discount loss reserves, (ii) the Company's exposure to Greek sovereign debt resulting in incurred losses of $8.7 million, (iii) $5.9 million of incurred losses due to declining revenues in a print-media whole business securitization and (iv) incurred losses of $3.1 million on the Chapter 9 bankruptcy filing of Jefferson County,

Alabama. Loss and loss adjustment expenses for the year ended December 31, 2010, were $5.7 million, contributing to a loss ratio of 34%. The improvement in the 2010 loss ratio was attributable to several factors including improved delinquency experience and an increase in representation and warranties repurchase credits on the Company's exposure to insured RMBS transactions.

Acquisition Expenses: Acquisition expenses for the years ended December 31, 2011 and 2010 were $10.7 million and $6.1 million, respectively. The increase in acquisition expenses in 2011 as compared to 2010 was primarily due to the write off in 2011 of $3.8 million of DAC which was not considered recoverable and a $1.3 million credit to acquisition expenses in 2010 due to the early termination on an installment contract where the DAC had previously been written off as irrecoverable. Acquisition expenses are closely related to earned premiums, and thus the decrease in acquisition expenses in 2011 as compared to the comparable 2010 period, excluding the above items, was also due to the decrease in earned premiums in the period.

Operating Expenses: Operating expenses for the year ended December 31, 2011 were $6.8 million, compared to $11.9 million for the year ended December 31, 2010. The decrease in operating expenses for 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 AORE.

Interest Expense: Interest expense was nil for the year ended December 31, 2011 and $0.9 million for the year ended December 31, 2010. The decline in interest expense for the year ended December 31, 2011, was the result of the repurchase of the Company's remaining Senior Notes during 2010.

American Overseas Group Limited

Consolidated Financial Statements
For the Year Ended
December 31, 2011

Deloitte.

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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 balance sheets of American Overseas Group Limited (formerly known as RAM Holdings Ltd. or the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income, equity and retained deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche Ltd.

May 1, 2012

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American Overseas Group Limited
Consolidated Balance Sheets
December 31, 2011 and 2010

	2011	2010
ASSETS		
Investments: Fixed-maturity securities held as available for sale, at fair value (amortized cost of $246,914,146 and $280,807,063)	$ 259,809,019	$ 291,620,381
Short term investments, at fair value	14,999,875	—
Cash and cash equivalents	13,253,185	5,718,195
Restricted cash	49,428,723	16,722,247
Accrued investment income	1,593,075	1,817,815
Reinsurance balances receivable, net	13,505,088	17,659,316
Recoverables on paid losses	6,157,961	19,231,274
Deferred policy acquisition costs	41,889,959	54,870,327
Deferred expenses	433,310	520,640
Other assets	153,197	192,853
Total assets	**$ 401,223,392**	**$ 408,353,048**
LIABILITIES AND EQUITY		
Liabilities:		
Losses and loss expense reserve	$ 80,997,653	$ 52,411,626
Unearned premiums	110,187,189	133,666,192
Accounts payable and accrued liabilities	1,121,133	1,248,172
Derivative liabilities	48,303,395	63,524,831
Redeemable Series A preference shares	59,700,000	59,700,000
Total liabilities	**300,309,370**	**310,550,821**
Commitments and contingencies (See Note 12)		
Shareholders' equity:		
Common shares	2,643,116	2,639,456
Additional paid-in capital	231,467,675	231,339,583
Accumulated other comprehensive income	12,894,873	10,813,318
Retained deficit	(153,102,497)	(154,000,985)
Total shareholders' equity	**93,903,167**	**90,791,372**
Noncontrolling interest – Class B preference shares of subsidiary	7,010,855	7,010,855
Total equity	**100,914,022**	**97,802,227**
Total liabilities and equity	**$ 401,223,392**	**$ 408,353,048**

See Accompanying Notes to Consolidated Financial Statements.

American Overseas Group Limited
Consolidated Statements of Operations

	Years Ended December 31,	
	2011	**2010**
Revenues:		
Net premiums earned	$ 15,836,520	$ 16,763,488
Change in fair value of credit derivatives:		
Realized gains (losses) and other settlements	1,439,138	(6,512,813)
Unrealized gains (losses)	15,595,809	(14,537,866)
Net change in fair value of credit derivatives	17,034,947	(21,050,679)
Net investment income	9,266,257	11,531,428
Net realized gains on sale of investments	2,348,088	2,389,022
Total other-than-temporary impairment losses	—	(32,500)
Portion of impairment losses recognized in other comprehensive income	—	23,504
Net other-than-temporary impairment losses recognized in earnings	—	(8,996)
Foreign currency (losses) gains	(8,815)	68,425
Net gain on extinguishment of long-term debt	—	15,250,000
Net gain on extinguishment of redeemable Series A preference shares	—	11,475,000
Total revenues	**44,476,997**	**36,417,688**
Expenses:		
Loss and loss adjustment expenses	26,030,673	5,737,144
Acquisition expenses	10,712,002	6,116,210
Operating expenses	6,835,834	11,860,179
Interest expense	—	918,576
Total expenses	**43,578,509**	**24,632,109**
Net income available to common shareholders	**$ 898,488**	**$ 11,785,579**
Net income per common share:		
Basic	$ 0.34	$ 4.47
Diluted	$ 0.34	$ 4.47
Weighted-average number of common shares outstanding*:		
Basic	2,642,136	2,637,978
Diluted	2,647,818	2,638,110

* Shares outstanding and net income per share as of December 31, 2011, reflect the effects of a 1 for 10 reverse stock split on November 8, 2011. For comparative purposes, the outstanding shares along with the net income per common share for the year ending December 31, 2010, have been adjusted to reflect the change in capital structure as if the reverse stock split had occurred in that period.

See Accompanying Notes to Consolidated Financial Statements.

American Overseas Group Limited
Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
	2011	2010
Net income	$ 898,488	$ 11,785,579
Other comprehensive income		
Change in unrealized fair value of investments	4,429,643	5,817,366
Less: Reclassification adjustment for net realized gains included in net income	(2,348,088)	(2,389,022)
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	2,081,555	3,413,836
Comprehensive income available to common shareholders	**$ 2,980,043**	**$ 15,199,415**

See Accompanying Notes to Consolidated Financial Statements.

American Overseas Group Limited
Consolidated Statements of Equity and Retained Deficit

	Share capital	Noncontrolling interest in subsidiary	Additional paid-in capital	Accumulated other comprehensive income	Retained deficit	Total
Balance, January 1, 2010	$ 2,634,017	$ 8,114,390	$ 230,961,616	$ 7,399,482	$ (165,190,099)	$ 83,919,406
Share issuance	5,439	—	(5,439)	—	—	—
Share based compensation	—	—	383,406	—	—	383,406
Net income	—	—	—	—	11,785,579	11,785,579
Non credit component of impairment losses on available-for-sale securities	—	—	—	(23,504)	—	(23,504)
Net change in unrealized gains and losses on available-for-sale securities	—	—	—	3,437,340	—	3,437,340
Repurchase of noncontrolling interest in subsidiary	—	(1,103,535)	—	—	(596,465)	(1,700,000)
Balance, December 31, 2010	$ 2,639,456	$ 7,010,855	$ 231,339,583	$ 10,813,318	$ (154,000,985)	$ 97,802,227
Share issuance	3,660	—	(3,660)	—	—	—
Share based compensation	—	—	131,752	—	—	131,752
Net income	—	—	—	—	898,488	898,488
Net change in unrealized gains and losses on available-for-sale securities	—	—	—	2,081,555	—	2,081,555
Balance, December 31, 2011	$ 2,643,116	$ 7,010,855	$ 231,467,675	$ 12,894,873	$ (153,102,497)	$ 100,914,022

See Accompanying Notes to Consolidated Financial Statements.

American Overseas Group Limited
Consolidated Statements of Cash Flows

	2011	2010
Cash flows from operating activities:		
Net income for the year	$ 898,488	$ 11,785,579
Adjustments to reconcile net income to net cash used in operating activities:		
Net realized gains on sale of investments	(2,348,088)	(2,389,022)
Net other-than-temporary impairment losses recognized in earnings	—	8,996
Foreign currency losses (gains) on revaluation	11,115	(79,237)
Net unrealized (gains) losses on credit derivatives	(15,595,809)	14,537,866
Net gain on extinguishment of long-term debt	—	(15,250,000)
Net gain on extinguishment of redeemable Series A preference shares	—	(11,475,000)
Depreciation and amortization	106,888	921,149
Amortization of debt discount	—	89,399
Amortization of bond premium and discount	610,541	360,546
Share based compensation	131,752	383,406
Changes in assets and liabilities:		
Accrued investment income	224,740	426,110
Reinsurance balances receivable, net	4,143,112	4,764,769
Recoverables on paid losses	13,073,313	(7,878,573)
Deferred policy acquisition costs	12,980,368	7,029,660
Prepaid reinsurance premiums	—	—
Other assets	20,098	292,531
Losses and loss adjustment expenses	28,586,027	(4,260,733)
Unearned premiums	(23,479,003)	(19,763,517)
Derivative liability	374,373	(1,148,491)
Accounts payable, accrued liabilities and interest payable	(127,039)	(2,420,940)
Net cash provided by (used in) operating activities	**19,610,876**	**(24,065,502)**
Cash flows from investing activities:		
Purchases of investments	(39,938,438)	(85,924,460)
Proceeds from sales of investments	38,017,156	104,320,257
Proceeds on maturities of investments	37,551,681	41,196,640
Net sales (purchases) of short term investments	(14,999,810)	—
Net change in restricted cash	(32,706,475)	(13,837,285)
Purchases of fixed assets	—	(7,565)
Net cash (used in) provided by investing activities	**(12,075,886)**	**45,747,587**
Cash flows from financing activities:		
Repurchase of redeemable Series A preference shares	—	(3,825,000)
Repurchase of long-term debt	—	(19,750,000)
Repurchase of noncontrolling interest in subsidiary	—	(1,700,000)
Net cash used in financing activities	—	**(25,275,000)**
Net increase (decrease) in cash and cash equivalents	**7,534,990**	**(3,592,915)**
Cash and cash equivalents – Beginning of year	5,718,195	9,311,110
Cash and cash equivalents – End of year	**$ 13,253,185**	**$ 5,718,195**
Supplemental cash flow disclosure:		
Interest paid on long-term debt	$ —	$ 1,537,326

See Accompanying Notes to Consolidated Financial Statements.

American Overseas Group Limited
Notes to Consolidated Financial Statements

1 BACKGROUND

American Overseas Group Limited, formerly RAM Holdings Ltd. ("AOG"), and American Overseas Reinsurance Company Limited, formerly RAM Reinsurance Company Ltd. ("AORE" or the "Operating Subsidiary") and, together with AOG, the "Company", "we", "us" or "our", were incorporated on January 28, 1998, under the laws of Bermuda.

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 trade on the Pink Sheets. In addition, AOG obtained a primary listing on the Bermuda Stock Exchange effective May 14, 2009.

AORE is a Bermuda-based company whose principal activity is the reinsurance of financial guarantees of public finance and structured finance debt obligations insured by monoline financial guaranty companies (the "primary insurers" or the "primaries"). We refer to the primaries that reinsured with AORE as "ceding companies". AORE has provided reinsurance through treaty and facultative agreements that it maintains with each of its remaining ceding companies. Financial guaranty reinsurance written by AORE generally provided for guarantees of scheduled principal and interest payments on an issuer's obligation in accordance with the obligation's original payment schedule and, in rare circumstances, such amounts are payable on an accelerated basis. AORE no longer writes new financial guaranty business.

Business strategy

The unprecedented deterioration in the U.S. housing market which began during the latter half of 2007 and the resulting lack of liquidity in the capital markets had a substantial adverse impact on the financial guaranty industry generally and the Company in particular. As a result of these adverse developments and the downgrades and subsequent withdrawal of the Company's ratings by Standard & Poor's Ratings Services ("S&P") and by Moody's Investors Service ("Moody's"), the Company has not renewed its reinsurance treaties with the primaries or written any new financial guaranty business since 2009.

In response to the economic and rating events referenced above, the Company continued its efforts through 2011, which it began in 2008, to reduce the volatility of its insured portfolio, to reduce its insured risk exposure, to preserve its capital position, to deleverage its balance sheet and to reduce its expenses. Since 2008, the Company has commuted a significant portion of its insured portfolio, including exposures in troubled sectors such as US residential mortgage-backed securities ("RMBS"), asset-backed collateralized debt obligations ("CDOs") backed by RMBS and CDOs backed by commercial mortgage-backed securities ("CMBS"). In addition, the Company has significantly reduced its operating expenses. At the present time, the Company does not intend to reenter the financial guaranty market; however, the Company is considering writing other lines of business, such as short-term, non-catastrophe, property/casualty reinsurance business. Any new business undertaken would be subject to regulatory approval. There can be no assurance that the strategies that have been implemented or that will be pursued in the future 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". See Note 19 – Risks and Uncertainties, for a discussion of the Company's risks and uncertainties and liquidity.

Name Change
In connection with the Company's new business focus referenced above and to reflect the run-off of the financial guaranty business line, on December 2, 2011, as previously approved by AOG's shareholders, AOG 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.

Major customers and competitors

As of January 1, 2010, our customers were the following primary monoline financial guaranty insurers: Assured Guaranty Corp., or "Assured Guaranty", Financial Guaranty Insurance Company, or "FGIC", 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", and Syncora Guaranty Inc. (formerly XL Capital Assurance Inc.).

The Company has not renewed reinsurance treaties with any of the primaries in 2010 or 2011 and does not intend to write any new financial guaranty business. This does not reduce our in-force business, unless the business is run off, commuted or recaptured by the primaries. The Company is not competing in the financial guaranty reinsurance market.

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 accounts of AOG include those of its subsidiary, AORE. All significant intercompany balances have been eliminated on consolidation.

(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.

(d) **Investments**

The Company has classified its fixed-maturity investments as available-for-sale. Available-for-sale investments are carried at fair value, with unrealized appreciation or depreciation reported as a separate component of accumulated other comprehensive income. The Company's fair values of fixed maturity and short-term investments are based on prices obtained from nationally recognized independent pricing services. 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. Short-term investments are carried at amortized cost, which approximates fair value, and include all securities with maturities greater than 90 days but less than one year at time of purchase. 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 debt securities 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 debt security is less than the amortized cost basis of the security. If there is an intent to sell the impaired security, then the full OTTI is recognized in earnings in the period. If there is no intent to sell the impaired security 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) **Premium revenue recognition**

The Company recognizes a liability for unearned premium revenue at the inception of a financial guaranty insurance contract equal to the present value of the premiums due or expected to be collected over the period of the contract. If the premium is a single amount received at the inception of the contract (i.e. an upfront premium), then the Company records the unearned premium revenue as the amount received. Where premiums are received in installments over the term of the contract then the Company records the unearned premium revenue and a receivable for future premiums as the present value of premiums expected to be collected over the contract period, using a risk free discount rate. The period of a financial guaranty insurance contract is the expected period of risk, which generally equates to the contract period. However, in some instances, the expected period of risk is significantly shorter than the full contract period due to expected prepayments. The expected period of a contract is only used to determine the present value of unearned premium revenue and receivable for future premiums where (i) the financial guaranty contract insures a homogeneous pool of assets that are contractually prepayable, (ii) prepayments are probable and (iii) the amount and timing of prepayments are reasonably estimable. The Company records the accretion of the discount on installment premiums receivable as premium revenue and discloses the amount recognized in Note 5 – Financial Guaranty Contracts Accounted for as Reinsurance.

The Company recognizes financial guaranty reinsurance contract revenue over the period of the contract in proportion to the amount of insurance protection provided. As premium revenue is recognized, a corresponding adjustment to decrease unearned premium revenue occurs. The amount of insurance protection provided is a function of the insured principal amount outstanding. The premium revenue for each period is therefore determined by applying a constant rate to the insured principal amount outstanding for the period. The constant rate for each financial guaranty policy is determined by the ratio of (a) the total present value of the premium collected or expected to be collected over the period of the contract, to (b) the sum of all insured principal amounts outstanding during each reporting period over the period of the contract. When the financial obligation is retired prior to its scheduled maturity, the financial guaranty insurance contract on the retired financial obligation is extinguished (referred to as a refunding). The Company immediately recognizes any nonrefundable unearned premium revenue related to that contract as premium revenue in the period the contract is extinguished and any associated acquisition costs previously deferred as an expense.

(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 on reinsurance assumed. They also include a portion of salaries and related costs of underwriting personnel, rating agency fees, and certain other underwriting expenses; and management determines on an annual basis which costs vary with and are directly related to the production of new business and therefore qualified for deferral and uses its judgment to determine what percentage of these costs should be deferred. During 2011 and 2010, no such costs were deferred as no new business was written.

Policy acquisition costs related to financial guaranty insurance contracts are deferred and amortized over the period in which the related premiums are earned. Policy acquisition costs related to financial guaranty contracts written in derivative form are expensed as incurred. Where ceding commissions are paid in installments over the term of the contract, the Company records the deferred acquisition costs and a payable for future ceding commissions as the present value of ceding commissions expected to be paid over the contract period, using a risk free discount rate. The payable on ceding commissions is included within "reinsurance balances receivable, net" on the Consolidated Balance Sheets. Total deferred policy acquisition costs amortized during 2011 and 2010 were $10.5 million and $5.7 million, respectively.

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 and expected loss and loss adjustment expenses. 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. During 2011 and 2010, the Company wrote off $3.8 million and $Nil of deferred acquisition costs, respectively, as a result of this assessment.

(g) **Losses and loss adjustment expenses**

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's Management Committee formally 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 will be recorded in the periods in which they become known.

(h) **Derivative instruments**

The Company 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 valuation information provided to us by our ceding companies. 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, 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.

(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) Recent accounting pronouncements

Recently adopted accounting pronouncements:

In July 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-20, "Receivables (Topic 310)—Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" ("ASU 2010-20"). ASU 2010-20 requires amended disclosure related to certain financing receivables and related allowance for credit losses. The disclosure provisions are effective for the Company for the year ended December 31, 2010. These amended requirements are related only to disclosures, and do not affect the Company's consolidated balance sheets, results of operations or cash flows. The Company accounts for its insurance premiums receivable in accordance with ASC 944, "Financial Guaranty Insurance Contracts." Refer to Note 5 - Financial Guaranty Contracts Accounted for as Reinsurance, for disclosures related to the Company's receivable for insurance premiums.

In March 2010, the FASB issued ASU 2010-11, "Derivatives and Hedging (Topic 815)—Scope Exception Related to Embedded Credit Derivatives," to clarify that embedded credit derivatives created by the subordination of one financial instrument to another qualify for the scope exception and should not be subject to potential bifurcation and separate accounting. Other embedded credit derivative features are considered embedded derivatives and subject to potential bifurcation, provided that the contract is not a derivative in its entirety. The adoption of this standard did not have a material effect on the Company's consolidated balance sheet, results of operations, or cash flows.

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements," to require additional disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. In addition, the standard further clarifies existing disclosures about the level of disaggregation, valuation techniques and inputs to fair value measurements. The Company adopted this standard in 2010 except for the requirement to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which the Company adopted in 2011. As this standard only affects disclosures related to fair value, the adoption of this standard did not affect the Company's consolidated balance sheet, results of operations, or cash flows. Refer to Note 7 - Fair Value of Financial Instruments and Note 6 – Financial Guaranty Contracts Accounted for as Credit Derivatives, for these disclosures.

In December 2009, the FASB issued ASU 2009-17, "Consolidations (Topic 810)—Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities," to require the holder of a variable interest(s) in a variable interest entity ("VIE") to determine whether it holds a controlling financial interest in a VIE. A holder of a variable interest (or combination of variable interests) that has a controlling financial interest in a VIE is considered the primary beneficiary and is required to consolidate the VIE. The accounting guidance deems controlling financial interest as both (a) the power to direct the activities of a VIE that most significantly impact the VIEs economic performance and (b) the obligation to absorb losses or the rights to receive benefits of the VIE that could potentially be significant to the VIE. This accounting guidance eliminates the more quantitative approach for determining the primary beneficiary of a VIE. The accounting guidance requires an ongoing reassessment of whether a holder of a variable interest is the

primary beneficiary of a VIE. The Company adopted this standard in the first quarter of 2010. The adoption of this standard did not have a material effect on the Company's consolidated balance sheet, results of operations, or cash flows as the Company's assessment of its arrangements did not indicate that it has a controlling financial interest in any of the VIEs that it reinsures.

Other recent accounting pronouncements:

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210)—Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"). ASU 2011-11 creates new disclosure requirements about the nature of the Company's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The disclosure requirements are effective for the Company beginning in the first quarter of 2013. This standard will only affect the Company's disclosures and will not affect the Company's consolidated balance sheets, results of operations, or cash flows.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220)—Presentation of Comprehensive Income" ("ASU 2011-05"). This amendment eliminates the current option to report other comprehensive income and its components in the statements of changes in equity. The amendment does not change what currently constitutes net income and other comprehensive income. The entity is also required to present, on the face of the consolidated financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) in which the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB issued ASU 2011-12 "Comprehensive Income (Topic 220)—Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," which defers certain aspects of ASU 2011-05 related to the presentation of reclassification adjustments. These standards will only affect the Company's presentation of comprehensive income and will not affect the Company's consolidated balance sheets, results of operations, or cash flows. The new presentation will be included in the Company's Quarterly Report and Financial Statements for the quarter ending March 31, 2012.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820)—Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs". This amendment results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between US GAAP and International Financial Reporting Standards. The new standard is effective for annual periods beginning after December 15, 2011. The Company does not expect the adoption of this guidance to have a material impact on its financial position and results of operations, or cash flows, however, it may change certain fair value disclosures.

In October 2010, the FASB issued ASU 2010-26, "Financial Services – Insurance (Topic 944)—Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts." This amendment addresses which costs incurred in the acquisition of new and renewal insurance contracts should be capitalized. The new standard is effective beginning January 1, 2012 with early adoption as of January 1, 2011 permitted. The Company did not elect to early adopt the guidance as of January 1, 2011. The adoption of this standard is not expected to have a material effect on the Company's consolidated balance sheets, results of operations or cash flows.

(k) **Reclassifications**

Certain reclassifications have been made to the prior period amounts to conform to the current period's presentation.

3 PLEDGED ASSETS

As of December 31, 2011, and 2010, the Company had restricted cash of $49.4 million and $16.7 million, respectively, and investments at fair value of $207.5 million and $214.8 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 their express permission. The trust accounts are required to hold cash and investments equivalent to unearned premiums, case-basis loss reserves and credit impairments, and a contingency reserve calculated by the ceding companies. Management reviews these balances for reasonableness quarterly.

4 INVESTMENTS

The amortized cost, estimated fair value, gross unrealized gains, gross unrealized losses, and OTTI recorded in accumulated other comprehensive income of the Company's available for sale investments at December 31, 2011 and 2010, 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
2011:					
Fixed interest securities:					
Agencies	$ 20,579,226	$ 1,788,345	$ —	$ —	$ 22,367,571
U.S. government obligations[2]	87,925,883	2,865,839	—	—	90,791,722
Corporate debt securities	36,845,679	2,502,560	382,240	—	38,965,999
Municipal securities	6,729,842	1,057,919	—	—	7,787,761
Mortgage-backed securities:					
RMBS	72,956,393	3,377,380	—	10,910	76,322,863
CMBS	13,758,509	1,204,047	3,002	—	14,959,554
Asset -backed securities	8,118,614	494,935	—	—	8,613,549
Total fixed maturity investments	$ 246,914,146	$ 13,291,025	$ 385,242	$ 10,910	$ 259,809,019
Short term investments	14,999,875	—	—	—	14,999,875
Total investment portfolio	**$ 261,914,021**	**$ 13,291,025**	**$ 385,242**	**$ 10,910**	**$ 274,808,894**

	Amortized Cost	Gross Unrealized Gains	Included in Accumulated Other Comprehensive income ("AOCI") — Gross Unrealized Losses — Related to Changes in Estimated Fair Value	OTTI Included in Other Comprehensive Income (1)	Estimated Fair Value
2010:					
Fixed interest securities:					
Agencies	$ 21,285,844	$ 1,881,532	$ —	$ —	$ 23,167,376
U.S. government obligations(2)	122,088,572	3,131,756	768,470	—	124,451,858
Corporate debt securities	34,868,630	2,700,074	151,597	—	37,417,107
Municipal securities	10,729,998	524,964	—	—	11,254,962
Mortgage-backed securities:					
RMBS	62,103,859	2,296,110	326,279	27,793	64,045,897
CMBS	19,807,938	1,116,408	—	—	20,924,346
Asset-backed securities	9,922,222	436,613	—	—	10,358,835
Total investment portfolio	**$ 280,807,063**	**$ 12,087,457**	**$ 1,246,346**	**$ 27,793**	**$ 291,620,381**

(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 Guaranteed TLGP 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, 2011 and 2010. The Company has no material investments in securities guaranteed by third parties and has no direct investments in financial guarantors as at December 31, 2011 and 2010.

The amortized cost and estimated fair value of fixed interest securities classified as available-for–sale, as of December 31, 2011 and 2010, 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, 2011		December 31, 2010	
	Amortized Cost	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Less than one year	$ 66,148,405	$ 66,676,102	$ 19,745,010	$ 21,225,266
Due after one year through five years	54,958,540	57,371,843	122,850,593	127,081,781
Due after five years through ten years	20,590,881	23,008,224	31,987,361	32,585,166
Due after ten years	10,382,804	12,856,884	14,390,080	15,399,090
Mortgage-backed securities:				
RMBS	72,956,393	76,322,863	62,103,859	64,045,897
CMBS	13,758,509	14,959,554	19,807,938	20,924,346
Asset-backed securities	8,118,614	8,613,549	9,922,222	10,358,835
Total	$ 246,914,146	$ 259,809,019	$ 280,807,063	$ 291,620,381

The investments that have unrealized loss positions as of December 31, 2011 and 2010, 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
2011:						
Fixed income securities						
Agencies	$ —	$ —	$ —	$ —	$ —	$ —
U.S. government obligations	—	—	—	—	—	—
Corporate debt securities	8,457,579	382,240	—	—	8,457,579	382,240
Municipal securities	—	—	—	—	—	—
Mortgage -backed securities:						
RMBS	—	—	87,436	10,910	87,436	10,910
CMBS	3,495,228	3,002	—	—	3,495,228	3,002
Asset-backed securities	—	—	—	—	—	—
Total temporarily impaired securities	$ 11,952,807	$ 385,242	$ 87,436	$ 10,910	$ 12,040,243	$ 396,152

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2010:						
Fixed income securities						
Agencies	$ —	$ —	$ —	$ —	$ —	$ —
U.S. government obligations	17,133,355	768,470	—	—	17,133,355	768,470
Corporate debt securities	1,799,350	55,650	2,080,650	95,947	3,880,000	151,597
Municipal securities	—	—	—	—	—	—
Mortgage -backed securities:						
RMBS	14,924,660	354,072	—	—	14,924,660	354,072
CMBS	—	—	—	—	—	—
Asset-backed securities	—	—	—	—	—	—
Total temporarily impaired securities	$ 33,857,365	$ 1,178,192	$ 2,080,650	$ 95,947	$ 35,938,015	$ 1,274,139

As of December 31, 2011, 8 out of 122 securities were in unrealized loss positions compared to 7 out of 121 securities as of December 31, 2010. As at December 31, 2011, the Company's gross unrealized loss position was $0.4 million compared to $1.3 million at December 31, 2010. The decrease in the unrealized losses as at December 31, 2011 was attributable to a decrease in the Company's fixed maturity investment portfolio and declines in interest rates. Management does not believe these investments to be other than temporarily impaired, except as noted below, and has no intention to sell the securities. Unrealized gains and losses relating to 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. Only one security has been in an unrealized loss position for 12 months or more as of December 31, 2011. This security has previously had the credit portion of the OTTI written off to earnings, however the Company's analysis does not indicate any further credit loss on this security. Therefore although the security may be other than

temporarily impaired there is no further credit loss to take to income at this time and the remaining unrealized loss on this security is recorded in AOCI.

During the year ended December 31, 2011 and 2010, the Company recognized $Nil and an immaterial amount of other than temporary impairments, respectively. Where an other than temporary impairment is identified, the credit losses have been determined based on the estimated present value of cash flows using the appropriate discount rate based on the book yield and making assumptions for defaults based on the rating or current delinquencies on the securities.

The following table sets forth the amount of credit loss impairments on fixed income securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts for the years ended December 31, 2011 and 2010:

	OTTI related to Credit Losses recognized in earnings	
	2011	**2010**
Balance, January 1	$ 5,929,430	$ 6,095,642
Additions:		
Additional credit loss impairments recognized in the current period on securities previously impaired	—	8,996
Credit loss impairment recognized in the current period on securities not previously impaired	—	—
Credit loss impairments previously recognized on securities impaired to fair value during the period	—	—
Reductions:		
Credit loss impairments previously recognized on securities which matured, were paid down, prepaid or were sold during the period	—	(175,208)
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	—	—
Balance, December 31,	$ 5,929,430	$ 5,929,430

As of December 31, 2011 and 2010, $0.1 million and $1.3 million of net unrealized gains were recorded in accumulated other comprehensive income on securities which have previously had a credit loss written off to earnings. The reduction in the current year is due to gains realized on sale of 2 of these securities.

Proceeds from maturities and sales of investments in fixed interest securities available for sale during 2011 and 2010 were $75,568,837 and $145,516,897, respectively. Gross gains of $2,518,985 and $2,818,484 in 2011 and 2010, respectively, and gross losses of $170,897 and $429,462 in 2011 and 2010, respectively, were realized on those sales.

Major categories of net investment income are summarized as follows for the years ended December 31, 2011 and 2010:

	2011	**2010**
Interest from fixed-maturity securities	$ 9,686,356	$ 11,951,182
Interest from cash equivalents	11,917	7,053
Investment expense	(432,016)	(426,807)
Net investment income	$ 9,266,257	$ 11,531,428

5 FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS REINSURANCE

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 does not "re-underwrite" the transactions ceded under the treaties. The Company's business model has always been that of a reinsurer in which 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 use complex financial models, which have been internally developed, to produce the earnings and run off for their financial guaranty policies in accordance with US GAAP. Management 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 the Company's own basic model and iv) performing analytical review on the Company's underwriting results. Where a ceding company does not report all balances required, the Company makes estimates of the necessary information for a period based on internal models and calculations. During 2010, one of the ceding companies ceased reporting US GAAP financial information and therefore the Company produced its own internal model to calculate and report the US GAAP financial information on policies ceded by that primary.

The following tables present a roll forward of the Company's premiums receivable on installment policies for the years ended December 31, 2011 and 2010:

(dollars in thousands)		Premiums receivable
Premiums receivable January 1, 2011	$	31,547
Add: Premiums on new policies in 2011		—
Accretion of premiums receivable discount		634
Adjustments for changes in expected term of policies (including early terminations)		(503)
Adjustments for policies commuted in the period		(5,897)
Add: Foreign exchange movement		(10)
Less: Premiums received		(3,446)
Other adjustments		—
Balance as of December 31, 2011	$	22,325

(dollars in thousands)		
Premiums receivable January 1, 2010	$	39,048
Add: Premiums on new policies in 2010		—
Accretion of premiums receivable discount		1,354
Adjustments for changes in expected term of policies (including early terminations)		(4,498))
Add: Foreign exchange movement		107
Less: Premiums received		(4,464)
Other adjustments		—
Balance as of December 31, 2010	$	31,547

As of December 31, 2011 and 2010, the Company had $22.3 million and $31.5 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, 2011 and 2010 of $9.0 million and $12.1 million, respectively. As of December 31, 2011 and 2010, $(0.2) million and $1.8 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 the Company'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 the Company'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 the Company 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, 2011 and 2010, 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".

The accretion of premiums receivable discount is included in earned premiums in the Company's consolidated statements of operations. As of December 31, 2011 and 2010, the weighted average risk-free rate used to discount the premiums receivable was 3.20% and 3.33%, respectively. The weighted average expected period of future premiums used to estimate the premiums receivable was 9.5 years and 10.1 years, respectively. As of December 31, 2011 and 2010, the unearned premiums on these installment policies were $22.7 million and $31.3 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 the Company's estimates as of December 31, 2011, 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:

(dollars in thousands) Three months ended:		**Premiums Expected to be collected**
March 31, 2012	$	671
June 30, 2012		768
September 30, 2012		655
December 31, 2012		803
Twelve months ended:		
December 31, 2013		2,291
December 31, 2014		2,119
December 31, 2015		2,598
December 31, 2016		1,777
Five years ended:		
December 31, 2021		7,306
December 31, 2026		4,599
December 31, 2031		2,817
December 31, 2036		1,600
December 31, 2041		791
December 31, 2046		506
After 2046		301

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, 2011, 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:

(dollars in thousands)

Three months ended:	Change in Unearned Premiums	Accretion	Total Expected Future Earned Premiums
March 31, 2012	$ 2,297	$ 174	$ 2,471
June 30, 2012	2,249	170	2,419
September 30, 2012	2,199	166	2,365
December 31, 2012	2,146	164	2,310
Twelve months ended:			
December 31, 2013	8,199	617	8,816
December 31, 2014	7,780	590	8,370
December 31, 2015	7,254	545	7,799
December 31, 2016	6,777	487	7,264
Five years ended:			
December 31, 2021	27,048	1,852	28,900
December 31, 2026	18,619	1,105	19,724
December 31, 2031	12,389	613	13,002
December 31, 2036	6,720	319	7,039
December 31, 2041	3,217	177	3,394
December 31, 2046	1,602	94	1,696
After 2046	1,691	54	1,745

Accelerated premium revenue for refunded obligations for the years ended December 31, 2011 and 2010, was approximately $4.1 million and $2.5 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, 2011 and 2010, were $(7.6) million and $(3.0) million, respectively, see Note 11 – Commutations and Other Settlements for details of commutations in the period included within these numbers. Included in premiums written in 2011 and 2010 was estimated accretion of the premiums receivable of $0.6 million and $1.4 million, respectively. Accretion of the ceding commissions payable of $0.2 million and $0.4 million, respectively, was included in acquisition expenses for the period.

During the year ended December 31, 2010, the Company changed its estimate with respect to the reporting of premium and acquisition cost information to eliminate the one month lag in reporting. Prior to the year ended December 31, 2010, premium revenues and acquisition costs were recorded on a one month lag basis. This change in estimate has been accounted for prospectively and did not have a material impact on the consolidated balance sheet and consolidated results of operations as of and for the year ended December 31, 2010.

6 FINANCIAL GUARANTY CONTRACTS ACCOUNTED FOR AS CREDIT DERIVATIVES

The Company has entered into agreements to reinsure derivative instruments, consisting primarily of credit default swaps ("CDS"), that it intends to reinsure for the full term of the contract, unless commuted early in the normal course of business. While management considers these agreements to be a normal extension of its financial guaranty reinsurance business and reinsurance in substance, these transactions reinsured by the Company meet the definition of a derivative under ASC 815. 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 the Company has reinsured require the Company 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 Company's financial guaranty business, the Company 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,	
	2011	**2010**
Change in fair value of credit derivatives:		
Credit derivative premiums received and receivable	$ 5,958,756	$ 7,487,248
Expenses on credit derivatives	(2,101,950)	(2,722,922)
Losses and loss adjustment expenses [1]	(2,417,668)	(11,277,139)
Realized (losses)/gains and other settlements	1,439,138	(6,512,813)
Unrealized gains (losses) [1]	15,595,809	(14,537,866)
Net change in fair value of credit derivatives	$ 17,034,947	$ (21,050,679)

[1] See Note 11 – Commutations and Other Settlements, for details of the effect of the commutations on the above balances.

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. Based on disclosures by the primaries, 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

The Company's CDS policies are not readily tradable as there is no active market for them. Therefore, the Company views its principal market as the financial guaranty insurance and reinsurance market, whose participants would hypothetically be able to assume this business if the Company 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 the Company's reinsurance that limit its access to the terms of the underlying credit derivatives, which are highly individualized, and the underlying loan level data, 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, as discussed above. Therefore, the Company, 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 observable market data, including credit spread movements. Spreads and the related movements, quarter to quarter, are identified from observable market information such as indices, including the CDX, ABX, CMBX and LCDX indices, as related to specific types of derivative contracts. 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 ones. 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 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 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, 2011 and 2010, included in the Company's outstanding par exposure was $2.6 billion and $3.5 billion, respectively, of CDS that have been fair valued. These derivative instruments had a remaining average legal term to maturity of 14.1 years and 13.8 years, as of December 31, 2011 and 2010, respectively. Actual maturity of a CDS is generally expected to be significantly less than the legal term.

The following tables set forth the Company's exposure to credit derivatives by major asset type as at December 31, 2011 and 2010:

December 31, 2011

Asset Type [1]		**Net Par Outstanding**	**Weighted. Average Credit rating** [2]	**Remaining Weighted Average legal contract term** [3]
		($ in millions)		
HY	$	1,838.7	AA	10.3
IG		89.6	AAA	4.3
Other CDO		382.4	AA	31.0
Total CDO		2,310.7		
RMBS		109.0	BIG	31.4
Other		227.6	BBB	11.8
Grand Total	$	2,647.3		

December 31, 2010

Asset Type [1]		**Net Par Outstanding**	**Weighted. Average Credit rating** [2]	**Remaining Weighted Average legal contract term** [3]
		($ in millions)		
HY	$	2,453.7	AA	10.6
IG		213.2	AAA	2.8
Other CDO		385.1	AA	32.0
Total CDO		3,052.0		
RMBS		176.8	BBB	32.8
Other		266.7	BBB	13.1
Grand Total	$	3,495.5		

(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, 2011, AORE ratings are current as of February 24, 2012 (for the year ending December 31, 2010, ratings were as of March 15, 2011). 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.
BIG – Below Investment Grade.

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

In compliance with the requirements of ASC 820, the Company consideres its own non-performance risk when measuring the fair value of a liability. An adjustment to these valuations is needed to reflect the Company's own non-performance risk in the measurement of the fair value of these liabilities.

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 the Company's non-performance risk. Management has used inputs that reflect assumptions market participants may use in pricing the Company's creditworthiness. In determining the Company's own non-performance risk when measuring the fair value of a liability, the Company uses an implied market price for buying credit protection on the Company and a cash flow model, which models a CDS contract, to calculate a value price based on those spreads and cash flows. The Company identifies comparable entities with active CDS markets to estimate credit spreads for the Company. 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. Based on this information, as at December 31, 2011 and 2010, the Company estimated its credit spread to be approximately 2,840 and 1,910 basis points, respectively. An approximation of a CDS contract is made based on a 5-year insured CDS contract, an assumption of a 5.5 year weighted average life (6.0 years in 2010), and an assumption for par, coupon, duration and the appropriate discount rate based on a 5-year swap rate. The Company believes that these data points may be considered by hypothetical market participants in determining the Company's creditworthiness. The Company also considers other data points that may be relevant. These data points include transactions involving the Company's debt or preferred shares, if any, during the financial statement period. The Company assesses the interrelationship of market prices for these transactions with the results of applying the implied credit spreads described above. Furthermore, the Company 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, the Company 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 the Company's estimate of the non-performance risk adjustment. The Company 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 the Company's derivative liability at December 31, 2011 and 2010, of approximately $97.8 million and $71.3 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 the Company's estimated spread would have a significant impact on the amount of the adjustment for the Company's own non-performance risk. Adjustments to the Company's non-performance risk will be recorded in the periods in which they become known or estimable by the Company.

The following table summarizes the estimated changes in fair value of our credit derivatives assuming immediate changes in the Company's non-performance credit risk at specified levels at December 31, 2011:

Change in Credit Spreads	**Estimated Net Fair Value of Derivative Liability**	**Impact of Change on Net Income**
	($ in millions)	
1000 basis point narrowing	$ (73.1)	$ (24.8)
500 basis point narrowing	(59.1)	(10.8)
100 basis point narrowing	(50.2)	(1.9)
Base scenario	(48.3)	—
100 basis point widening	(46.5)	1.8
500 basis point widening	(39.9)	8.4
1000 basis point widening	(33.2)	15.1

The Company believes that the above hypothetical spread movements used in the sensitivity analysis of 100, 500, and 1000 basis points are supported by previous large spread changes that have occurred during 2010 and 2011 in

our primaries' spreads. Therefore, the Company believes it is not unreasonable for the Company 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.

The following table sets forth the Company's derivative liabilities that were accounted for at fair value as of December 31, 2011 and 2010, by level within the fair value hierarchy. 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, (see Note 2(i) - Significant Accounting Policies – Fair Value Measurements, for a description of each of the three levels):

	Total	Level 1	Level 2	Level 3
December 31, 2011				
Derivative liabilities	$ 48,303,395	$ —	$ —	$ 48,303,395

	Total	Level 1	Level 2	Level 3
December 31, 2010				
Derivative liabilities	$ 63,524,831	$ —	$ —	$ 63,524,831

Our credit derivative policies are classified as Level 3 in the above fair value hierarchy 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, 2011 and 2010:

Fair value measurement using significant unobservable inputs (Level 3)

	Years Ended December 31,	
	2011	**2010**
Balance, beginning of period	$ (63,524,831)	$ (50,135,456)
Total unrealized gains (losses) included in earnings [1]	15,595,809	(14,537,866)
Total realized gains (losses) included in earnings [2]	1,439,138	(6,512,813)
Purchases, issuances, sales and settlements:		
Purchases	—	—
Issuances	—	—
Sales	—	—
Settlements [3]	(1,813,511)	7,661,304
Transfers in and/or out of Level 3	—	—
Balance, end of period	$ (48,303,395)	$ (63,524,831)
Change in unrealized gains and losses relating to assets held at the reporting date [1]	$ 13,352,502	$ (21,496,141)

(1) Included in "Unrealized gains (losses)" within "Net change in fair value of credit derivatives".
(2) Included in "Realized gains (losses) and other settlements" within "Net change in fair value of credit derivatives".
(3) Settlements includes all ongoing contractual cash payments inclusive of payments to commute credit derivatives (see Note 11 – Commutations and Other Settlements for details of commutations in the period).

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, 2011 and 2010. 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, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Fixed maturity investments				
Agencies	$ 22,367,571	$ —	$ 22,367,571	$ —
U.S. government obligations	90,791,722	33,970,027	56,821,695	—
Corporate debt securities	38,965,999	—	38,965,999	—
Municipal securities	7,787,761	—	7,787,761	—
Mortgage -backed securities:				
RMBS	76,322,863	—	76,322,863	—
CMBS	14,959,554	—	14,959,554	—
Asset-backed securities	8,613,549	—	8,613,549	—
Total fixed maturity investments	259,809,019	33,970,027	225,838,992	
Short Term Investments	14,999,875	—	14,999,875	—
Cash and Cash Equivalents	13,253,185	13,253,185	—	—
Restricted Cash	49,428,723	49,428,723	—	—
% of assets at fair value	**100%**	**29%**	**71%**	**0%**
Financial Liabilities:				
Derivative Liabilities [1]	$ 48,303,395	$ —	$ —	$ 48,303,395
% of liabilities at Fair value	**100%**	**—**	**—**	**100%**

	Fair Value Measurements at Reporting Date Using			
	Balance as of December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Fixed maturity investments				
Agencies	$ 23,167,376	$ —	$ 23,167,376	$ —
U.S. government obligations	124,451,858	57,394,525	67,057,333	—
Corporate debt securities	37,417,107	—	37,417,107	—
Municipal securities	11,254,962	—	11,254,962	—
Mortgage -backed securities:				
RMBS	63,975,344	—	63,975,344	—
CMBS	20,924,346	—	20,924,346	—
Asset-backed securities	10,429,388	—	10,429,388	—
Total fixed maturity investments	291,620,381	57,394,525	234,225,856	
Cash and Cash Equivalents	5,718,195	5,718,195	—	—
Restricted Cash	16,722,247	16,722,247	—	—
% of assets at fair value	**100%**	**25%**	**75%**	**0%**
Financial Liabilities:				
Derivative Liabilities [1]	$ 63,524,831	$ —	$ —	$ 63,524,831
% of liabilities at Fair value	**100%**	**—**	**—**	**100%**

[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, 2011 and 2010, all of the Company's investments were valued using the independent pricing services.

There were no transfers into or out of Level 1 or 2 during the year ended December 31, 2011. During the year ended December 31, 2010, one security which was included within Level 3 of the fair value hierarchy as of December 31, 2009, was transferred to Level 2 during 2010 due to pricing becoming available using observable market inputs to the models. This security, which includes subprime exposure, was valued using a non-binding broker quote prior to its transfer to Level 2. There were no transfers into or out of Level 1 during the year ended December 31, 2010.

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 income securities in the investment portfolio to determine the appropriate fair value hierarchy level in accordance with ASC 820. Based on the Company's evaluation, each security was classified as Level 1, 2, or 3. Prices with observable market inputs were classified as Level 2, prices on money market funds and US treasuries were classified as Level 1, and valuations with no significant observable inputs were classified as Level 3 as of December 31, 2011 and 2010.

Fair value measurement using significant unobservable inputs (Level 3)

	Years Ended December 31,	
	2011	**2010**
Balance, beginning of period	$ —	$ 281,139
Implementation of new guidance on other than temporary impairments	—	—
Total realized losses included in earnings	—	—
Total unrealized gains (losses) included in other comprehensive income	—	—
Purchases, issuances, sales and settlements		
Purchases	—	—
Issuances	—	—
Sales	—	—
Settlements	—	—
Transfers in and/or out of Level 3	—	(281,139)
Balance, December 31,	$ —	$ —
Change in unrealized gains and losses relating to assets held at the reporting date	$ —	$ —

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, reinsurance balances receivable, accounts payable and accrued liabilities to be reasonable estimates of their fair values.

As of December 31, 2011 and 2010, the fair value of the Company's $59.7 million redeemable Series A Preference Shares was approximately $3.4 million and $14.9 million, respectively. These fair value estimates are based on the present value of expected cashflows and past trades in our Series A Preference Shares during 2010, together with the Company's best estimate of fair value of this instrument.

As of December 31, 2011 and 2010, the carrying amount of unearned premiums represented the unearned premium collected at inception for policies where premiums are paid upfront and for policies where the premiums are received in installments. The unearned premium represents the unearned portion of the present value of premiums expected to be collected over the contract period, discounted at a risk free rate. The fair value of the unearned premiums is the value the Company would receive to transfer those obligations. The Company's market would be the financial guaranty insurance and reinsurance industry participants, similar to that used in the calculation of fair value of insured CDS contracts. Unearned premiums are generally collateralized by the Company by placing assets

in trust for the benefit of the ceding company. The Company perceives the fair value to approximate the carrying value.

Our ability to accurately estimate the fair value of our non−derivative financial guarantees is limited. There are no observable market data points as a result of the disruption in the credit markets and significant rating agency downgrades. We believe that in the absence of a principal market, our estimate of fair value described above in a hypothetical market provides the most relevant information with respect to disclosed fair value estimates given the information currently available to us. The carrying value of our non−derivative financial guaranty liabilities consists of unearned premiums, premiums receivable, deferred policy acquisition costs, and reserve for losses and loss adjustment expenses ("LAE") as reported on our Consolidated Balance Sheets. The fair value for financial guaranty insurance contracts includes consideration of our credit quality, limited by the collateral which is available to the ceding companies in the trust accounts.

The following table sets out the carrying amounts and the estimated fair values of the Company's financial instruments at December 31, 2011 and 2010:

	Years Ended December 31,			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Investments	$ 274,808,894	$ 274,808,894	$ 291,620,381	$ 291,620,381
Short term investments	14,999,875	14,999,875	—	—
Cash and cash equivalents	13,253,185	13,253,185	5,718,195	5,718,195
Restricted cash	49,428,723	49,428,723	16,722,247	16,722,247
Accrued investment income	1,593,075	1,593,075	1,817,815	1,817,815
Reinsurance balances receivable	13,505,088	13,505,088	17,659,316	17,659,316
Financial Liabilities:				
Losses and loss expense reserves net of recoveries	74,839,692	74,839,692	33,180,352	33,180,352
Unearned premiums, net of reinsurance	110,187,189	110,187,189	133,666,192	133,666,192
Derivative liabilities	48,303,395	48,303,395	63,524,831	63,524,831
Redeemable preference shares	59,700,000	3,400,000	59,700,000	14,925,000

8 LOSSES AND LOSS EXPENSE RESERVE

The Company's loss and loss expense reserve as of December 31, 2011, represented case basis loss reserves, or claim liability. 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, 2011 and 2010, is presented in the following table:

	2011	2010
Case basis loss reserves:		
Balance – Beginning of year	$ 52,411,626	$ 56,672,359
Less: Recoverables on paid losses	(19,231,274)	(11,352,701)
Net balance – Beginning of year	33,180,352	45,319,658

Additions to case reserves related to:		
Current year	—	—
Prior years	26,030,673	5,737,144
	26,030,673	5,737,144
Net losses paid related to:		
Current year	—	—
Prior years	(15,628,667)	17,876,450
Total paid	(15,628,667)	17,876,450
Net balance – End of year	74,839,692	33,180,352
Add: Recoverables on paid losses	6,157,961	19,231,274
Balance – End of year	80,997,653	52,411,626

For the year ended December 31, 2011, the Company incurred loss and LAE of $26.0 million. Included in the $26.0 million of loss and LAE is $(15.6) million in loss and LAE payments (recoveries), net of $0.7 million relating to commutation payments (see Note 11 – Commutations and Other Settlements for further details of these commutations). Incurred losses since January 1, 2011 were primarily a result of (i) further adverse development on US RMBS exposure of $7.2 million, including increased reserves due to declining discount rates used to discount loss reserves, (ii) the Company's exposure to Greek sovereign debt resulting in incurred losses of $8.7 million, (iii) incurred losses of $3.1 million on the Chapter 9 Bankruptcy filing of Jefferson County, Alabama and (iv) $5.9 million of incurred losses due to declining revenues in a print-media whole business securitization. US RMBS incurred losses consisted of $(15.9) million of loss and LAE payments (recoveries), including $0.7 million of commutation payments, and $23.2 million of change in case reserves. The $15.6 million in loss and LAE payments (recoveries) are primarily as a result of recoveries of $(23.9) million on the Assured settlement with the Bank of America Corporation (See Note 11 – Commutations and Other Settlements for further details. Excluding these recoveries, paid losses were $8.3 million.

For the year ended December 31, 2010, the Company incurred loss and LAE of $5.7 million. Included in the $5.7 million of loss and LAE is $17.9 million in loss and LAE payments, including $(0.8) million relating to commutation payments (see Note 11 – Commutations and Other Settlements for further details of these commutations). Incurred losses since January 1, 2010 were primarily a result of US RMBS incurred losses of $6.3 million. US RMBS incurred losses consisted of $16.2 million of loss and LAE payments, including $(0.8) million of commutation payments, and $(9.9) million of change in case reserves.

The ongoing deterioration in the US residential mortgage markets which began in 2007, resulted in a significant amount of case-basis loss reserves being recorded on the RMBS policies that have defaulted or have a high probability of defaulting. 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. Throughout 2011, the Company's US RMBS exposures continued to experience losses primarily due to actual loss and LAE payments on insured obligations, particularly second lien US RMBS, along with declining interest rates leading to increases in the Company's reserves. 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, 2011 and 2010, the Company gave credit of $7.7 million and $28.1 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 2011 and 2010 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 are in the process of being put back to the sponsors for repurchase. The Company views the obligation to repurchase as a standard provision of RMBS securitizations that has been enforced for many years. 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 2011 and 2010.

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. As of December 31, 2011, the Company estimates that its loss and LAE reserves for financial guaranty contracts are 24% higher than the reserves ceded by the primaries. However, due to the difference in timing of year-end reporting by the Company and the primaries, reported reserves may not be directly comparable. After adjusting for known timing differences, the Company estimates that its loss and LAE reserves for financial guaranty contracts are 11% higher than the estimated reserves ceded 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. The loss severities and default assumptions are based on rating agency information, are specific to each bond type and are established and approved by the Company's Management Committee. 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 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, 2011, the Company used risk free rates ranging from 0.11% to 3.26% to discount reserves for loss and loss adjustment expenses. As of December 31, 2010 the Company used risk free rates ranging from 0.13% to 5.02% to discount reserves for loss and loss adjustment expenses.

The Company's Management Committee 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. Adjustments based on actual loss experience are recorded in the periods in which they become known.

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 risk management staff 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 Management Committee is comprised of the Company's senior officers and meets quarterly to formally review the Company's Watch List and approve reserves.

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. Risk management 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.

Transactions on the Company's Watch List are divided into four categories generally based upon the following definitions:

- Category 1 includes transactions for which performance of the issue or that of an issuance participant is sufficiently below expectations where increased monitoring is required; however, the risk of loss remains remote.
- Category 2 transactions include those for which performance of an issue or that of an issuance participant is sufficiently below expectations where increased monitoring is required and remedial intervention by the ceding company is either planned or already in progress. Performance issues occur when the performance of an issue does not stabilize or improve over the intermediate term and concerns about the transaction's ability to meet its debt service obligations may arise.
- Category 3 includes transactions where performance has deteriorated to the point where concerns about continued ability to meet debt service requirements on a timely basis are substantial. Also included are transactions where claims have been paid but recoveries are forecast for the claims.
- Category 4 transactions include those for which ultimate net loss (net of recoveries and premium receivable) is expected in the most-probable scenarios.

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 risk management staff. 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 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 internal 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 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, 2011:

		Surveillance Categories				
(dollars in millions)	**Deals not on watch list**	**Category 1**	**Category 2**	**Category 3**	**Category 4**	**Total**
Number of policies	20	29	19	20	57	145
Remaining weighted average contract period (in yrs)	17	20	19	23	25	20
Insured contractual payments outstanding:						
Principal	$ 155.4	$ 212.1	$ 418.7	$ 67.1	$ 261.9	$ 1,115.2
Interest	68.7	130.6	255.7	20.9	109.8	585.8
Total	$ 224.1	$ 342.7	$ 674.4	$ 88.0	$ 371.7	$ 1,700.9
Gross Claim Liability	$ 1.2	$ 2.9	$ 4.7	$ 9.2	$ 93.8	$ 111.8
Less:						
Gross potential recoveries	(1.7)	—	—	(4.1)	(14.6)	(20.4)
Discount, net	(0.0)	(0.1)	(0.4)	0.1	(8.2)	(8.8)
Net Claim Liability	$ (0.6)	$ 2.7	$ 4.3	$ 5.2	$ 71.0	$ 82.6
Unearned premium revenue[(1)]	$ 0.7	$ 1.6	$ 2.8	$ 0.4	$ 2.4	$ 7.8
Net Claim liability reported in the Balance Sheet						$ 74.8
Reinsurance recoverables						—

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, 2010:

		Surveillance Categories				
(dollars in millions)	**Deals not on watch list**	**Category 1**	**Category 2**	**Category 3**	**Category 4**	**Total**
Number of policies	41	32	14	19	57	163
Remaining weighted average contract period (in yrs)	20	14	34	24	26	20
Insured contractual payments outstanding:						
Principal	$ 612.9	$ 320.9	$ 256.0	$ 86.8	$ 246.8	$ 1,523.4
Interest	297.1	183.9	189.9	24.8	80.4	776.1
Total	$ 910.0	$ 504.8	$ 445.9	$ 111.6	$ 327.2	$ 2,299.5
Gross Claim Liability	$ 5.1	$ 3.8	$ 1.2	$ 10.4	$ 74.0	$ 94.5
Less:						
Gross potential recoveries	(0.2)	—	0.0	(25.3)	(17.0)	(42.5)
Discount, net	(0.8)	(0.5)	(0.0)	0.7	(11.4)	(12.0)
Net Claim Liability	$ 4.1	$ 3.3	$ 1.2	$ (14.2)	$ 45.6	$ 40.0
Unearned premium revenue[(1)]	$ 2.9	$ 1.6	$ 0.1	$ 0.0	$ 2.2	$ 6.8
Net Claim liability reported in the Balance Sheet						$ 33.2
Reinsurance recoverables						—

(1) On policies with a loss reserve but excluding those policies with a recoverable as of December 31, 2011 and 2010.

Categories 1 to 4 in the above table include all financial guaranty contracts on the Company's Watch List at December 31, 2011 and 2010, 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.

9 OUTSTANDING EXPOSURE

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, 2011, was diversified by geographic and bond market sector, with no single obligor representing more than 1.5% 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, 2011 and 2010:

(dollars in millions)	2011		2010	
US Public Finance	**Total OS Par**	**% of total**	**Total OS Par**	**% of total**
General Obligation and Lease	$ 5,383	34.4	$ 5,703	30.8
Tax backed	877	5.6	1,038	5.6
Transportation	1,844	11.8	2,104	11.4
Healthcare	621	4.0	894	4.8
Utility	1,766	11.3	2,056	11.1
Higher Education	384	2.5	414	2.2
Other	245	1.6	300	1.6
Total US Public Finance	**$ 11,120**	**71.0%**	**$ 12,509**	**67.6%**
US Structured Finance				
Commercial ABS and CDOs	$ 1,948	12.4	$ 2,542	13.7
RMBS	386	2.5	465	2.5
Other Structured Finance & Corporate	93	0.6	148	0.8
Total US Structured Finance	**$ 2,427**	**15.5%**	**$ 3,155**	**17.0%**
International				
Asset-backed	$ 853	5.4	$ 1,293	7.0
Public Finance	752	4.8	857	4.6
Investor Owned Utilities and Other	515	3.3	692	3.8
Total International	**$ 2,120**	**13.5%**	**$ 2,842**	**15.4%**
Total	**$ 15,668**	**100.0%**	**$ 18,506**	**100.0%**

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

Net outstanding par reinsured at December 31, 2011 and 2010, by geographic location was as follows:

(dollars in millions)	2011 OS Par	2011 %	2010 OS Par	2010 %
Multi-state	$ 2,411	15.4	$ 3,136	16.9
International	2,120	13.5	2,842	15.4
California	2,091	13.3	2,267	12.2
New York	1,225	7.8	1,314	7.1
Illinois	804	5.1	885	4.8
Florida	725	4.6	844	4.6
Other U.S. States	6,292	40.3	7,218	39.0
Total	**$ 15,668**	**100.0 %**	**$ 18,506**	**100.0%**

The above outstanding par amounts are 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. Total GAAP outstanding par includes par on defeased policies which are not included in the above analysis.

10 PENSION PLANS

On May 1, 2010 the Company entered into a management agreement ("the Management Agreement") with Reid Street Services Ltd. ("RSSL"), see Note 20 – Related Party Transactions for a description of this agreement. Prior to this date the Company maintained qualified and non-qualified, non-contributory, defined contribution pension plans for the benefit of eligible employees and, senior management received a cash pension benefit in lieu of a contribution to a deferred compensation plan. The plans were administered by a third party. The Company's contributions are based upon a fixed percentage of employee compensation. Pension expense (inclusive of executives' cash contributions), which is funded as accrued, for the years ended December 31, 2011 and 2010 was $0.1 million and $0.2 million, respectively.

During 2011 the Company established a Simplified Employee Pension – Individual Retirement Account ("SEP IRA") for the benefit of its U.S citizen executive. During the year ended December 31, 2011, the maximum allowed under the plan was contributed to this scheme and is included within the above pension expense.

11 COMMUTATIONS AND OTHER 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 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 to (i) reduce gross written premiums and unearned premiums by $0.9 million, resulting in no impact on earned premiums, and (ii) decrease losses and loss adjustment expenses by $0.1 million, resulting in an overall gain to net income at the time of termination of $0.1 million.

Effective June 30, 2011, the Operating Subsidiary entered into a Termination and Release Agreement with one of its ceding companies (the "Cedent"). The agreement provided, among other things, for the Operating Subsidiary to make a $0.7 million payment to terminate the reinsurance with respect to several policies previously assumed from the Cedent, with par in-force of $300.4 million, and to mutually terminate all liabilities and obligations with respect to that reinsurance. The effect of the termination on the Company's results of operations was to (i) reduce gross written premiums and unearned premiums by $6.9 million, resulting in no impact on earned premiums, and (ii)

decrease losses and loss adjustment expenses by $0.5 million, resulting in an overall gain to net income at the time of termination of $0.5 million.

Effective April 15, 2011, the Operating Subsidiary, entered into a Settlement Agreement (the "Settlement Agreement") with one of its ceding companies. The Settlement Agreement provided, among other things, for the Operating Subsidiary to make a $2.3 million payment to commute the reinsurance with respect to certain policies written in credit derivative form, with par in-force as of December 31, 2010 of $129.8 million. Under the Settlement Agreement, each party was released from all liabilities and obligations under the commuted reinsurance. The effect of the Settlement Agreement on the Company's results of operations was to decrease the net change in fair value of credit derivatives by a loss of $1.4 million.

On April 15, 2011, Assured Guaranty Ltd. and its subsidiaries ("Assured") announced that they had reached a settlement with Bank of America Corporation and its subsidiaries (the "Assured Settlement") regarding their liabilities with respect to various RMBS transactions insured by Assured, including claims relating to reimbursement for breaches of representations and warranties. A number of the Operating Subsidiary's policies assumed from Assured are affected by this settlement. During 2011 the Operating Subsidiary has received and accrued $23.9 million from Assured in relation to this settlement and anticipates it will receive the remaining payments (totaling approximately $1.3 million) by the middle of 2012.

On December 22, 2010, the Operating Subsidiary entered into a Settlement, Reassumption and Release Agreement (the "Commutation Agreement") with one of its ceding companies. The Commutation Agreement provided, among other things, for the Operating Subsidiary to make a $10.3 million payment to commute seven policies previously assumed from the ceding company, with par in-force of $123.0 million, primarily relating to RMBS securities. In return, each party was released from all liabilities and obligations of the commuted policies. The effect of the Commutation Agreement on the Company's results of operations was to (i) reduce gross written premiums and unearned premiums by $0.1 million, resulting in no impact on earned premiums, (ii) increase net change in fair value of credit derivatives by a gain of $11.1 million and (iii) increase losses and loss adjustment expenses of $0.4 million, resulting in an overall gain to net income at the time of commutation of $10.7 million.

12 COMMITMENTS AND CONTINGENCIES

In the ordinary course of its business, AORE engages in arbitrations under its treaty agreements.

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 AOG, 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 AOG and the Operating Subsidiary without prejudice and that, should 29 Palms subsequently seek to assert claims against the Operating Subsidiary and/or AOG related to such actions, neither the Operating Subsidiary nor AOG 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 AOG without prejudice.

13 LONG-TERM DEBT

On March 26, 2004, AOG issued $40.0 million of unsecured senior notes (the "Notes") to a qualified institutional buyer as defined in Rule 144A of the Securities Act of 1933. The term of the Notes was 20 years with the full principal amount due at maturity. The Notes ranked pari passu in right of repayment with the Company's other unsecured senior debt, of which there is currently none. The net proceeds from the Notes were used to provide capital for the Operating Subsidiary. The applicable interest rate was 6.875% and was payable semi-annually. The Notes were subject to redemption at the option of the Company, in whole or in part at any time upon 30 days advance notice by paying principal, accrued interest and a make-whole amount, amounting to a portion of the future scheduled payments over the principal amount. There were no financial covenants in place. Interest expense amounting to $Nil and $0.9 million was recorded for the years ended December 31, 2011 and 2010, respectively.

On April 24, 2009, the Company purchased $5.0 million of these Notes for $1.6 million, realizing a gain of $3.4 million. During 2009, the Company paid $1.0 million to the majority holders of the Notes to amend a replacement capital covenant of the Notes in advance of a tender offer on its Series A Preference Shares, See Note 14 – Redeemable Preference Shares. On March 31, 2010 and June 14, 2010 the Company purchased $10.0 million and $25.0 million of these Notes for $5.5 million and $14.3 million, including accrued interest of $0.3 million and $0.3 million, realizing gains of $4.5 million and $10.8 million, respectively. The Notes that were repurchased were cancelled immediately after such repurchase. As of December 31, 2011 and 2010, none of the Notes remained outstanding.

14 REDEEMABLE 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 can 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 year ended December 31, 2011 and 2010, 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. Following the settlement of the tender offer and as of December 31, 2011 and 2010, 59,700 shares of AOG's Series A Preference Shares remain outstanding.

15 NONCONTROLLING INTEREST – Class B Preference Shares

On December 23, 2003, the Operating Subsidiary 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 the Operating Subsidiary 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 the Operating Subsidiary's Class B Preference Shares. On February 17, 2009, the Operating Subsidiary 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, the Operating Subsidiary 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, and the trust is now in the process of dissolution. 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 the Operating Subsidiary. Such rights are subordinate to insurance claims, as well as the general unsecured creditors of the Operating Subsidiary. The Class B Preference Shares are not rated by S&P since the Operating Subsidiary requested the withdrawal of its ratings during 2009 and have not been rated by Moody's. The Operating Subsidiary has the option to redeem the Class B Preference Shares, subject to certain specified terms and conditions.

The fair value of the put option at the exercise date was $41.9 million and therefore the value of the Class B Preference Shares on that date was $8.1 million, being the difference between the proceeds received and the fair value of the put option on the date of exercise. On March 9, 2010, the Operating Subsidiary completed a tender offer for the Class B Preference Shares, pursuant to which 68.00 shares, or 13.60%, were tendered out of the 500.01 shares outstanding. The Operating Subsidiary accepted for purchase all such Class B Preference Shares that were validly tendered as of the applicable expiration date and paid $1.7 million for all such Class B Preference Shares on March 10, 2010. Following the settlement of the tender offer, 432.01 shares of Class B Preference Shares remain outstanding. The value of the Class B Preference Shares of $7.0 million is included as a "Noncontrolling interest – Class B preference shares of subsidiary" in the Company's Consolidated Balance Sheets as of December 31, 2011 and 2010.

On May 12, 2009, the Board of Directors determined to pay dividends up to June 15, 2009, and suspend dividend payments thereafter on these Class B Preference Shares. Dividends on the Class B Preference Shares are currently non-cumulative. Dividends on the Class B Preference Shares are only cumulative if the Operating Subsidiary pays dividends on its common shares without paying accrued and unpaid dividends on the Class B Preference Shares. The terms of the Operating Subsidiary's Class B Preference Shares restrict the Operating Subsidiary'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. There is an exception however that permits the Operating Subsidiary 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 indebtedness of the Operating Subsidiary or AOG) or (ii) to pay its operating expenses.

If the Operating Subsidiary 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 the Operating Subsidiary is automatically increased by two with the holders of the Class B Preference Shares having the ability to elect the two additional directors. In accordance with this provision, the Board of Directors of the Operating Subsidiary was increased by two on December 15, 2010 and a special general meeting of holders of the Class B Preference Shares was held on February 14, 2011. Two directors were appointed to the Board of Directors of the Operating Subsidiary at the special general meeting of holders of the Class B Preference Shares, one of whom subsequently declined to accept the appointment, with no further nomination made by the holders of the Class B Preference Shares.

16 SHARE CAPITAL

As at December 31, 2011 and 2010, authorized common share capital was $9,000,000. As at December 31, 2011 and 2010 there were 10,000,000 authorized undesignated preference shares with a par value of $0.10 each.

The following table shows a roll forward of the issued, outstanding and unissued common shares for the years ended December 31, 2010 and 2011:

Share Capital	Outstanding share capital	Outstanding Shares	Treasury Shares	Issued Shares	Unissued Shares
	$	#	#	#	#
Par Value per share prior to reverse stock split		$0.10	$0.10	$0.10	$0.10
As at January 1, 2010	$ 2,634,017	26,340,174	943,000	27,283,174	62,716,826
Issued restricted share units during the year	5,439	54,390	—	54,390	(54,390)
As at December 31, 2010 and January 1, 2011	**2,639,456**	**26,394,564**	**943,000**	**27,337,564**	**62,662,436**
Issued restricted share units during the year prior to reverse stock split	3,595	35,945	—	35,945	(35,945)
Number of shares prior to reverse stock split	$ 2,643,051	26,430,509	943,000	27,373,509	62,626,491
Reverse stock split of issued shares on 1 for 10 basis [(1)]					
Par value per share subsequent to reverse stock split		$1.00	$1.00	$1.00	$0.10
Number of shares subsequent to reverse stock split	2,643,050.9	2,643,050.9	94,300	2,737,350.9	62,626,491
Treasury shares cancelled	—	—	(65.1)	(65.1)	—
Bonus shares issued	65.1	65.1	—	65.1	—
As at December 31, 2011	**$ 2,643,116.0**	**2,643,116.0**	**94,234.9**	**2,737,350.9**	**62,626,491**

(1) Reverse Stock Split

On November 8, 2011, as previously approved by AOG's shareholders, AOG effected a reverse stock split of its issued common shares (the "Consolidation"). AOG'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 AOG'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.

17 SHARE BASED COMPENSATION

Prior to January 1, 2006, share options were issued to senior management and directors on an ad hoc basis and the fair value per share at the grant date was estimated as book value at the most recent quarterly reporting period and the strike price of the options granted was the book value at the date of grant, as required by the standard for stock issued to employees at that time. Therefore, the intrinsic value is zero for all options granted prior to January 1, 2006 that have the same fair value and strike price and no compensation expense is recognized for the cost of these share options.

Effective January 1, 2006, the Company adopted ASC 718 for stock compensation, utilizing the prospective transition method. Under the prospective transition method, compensation costs recognized relate to the estimated fair value at the grant date of share options granted subsequent to January 1, 2006. The Company continues to account for share options issued prior to January 1, 2006, where no compensation expense is recognized in net income for share options granted as the exercise price is equal to the fair value of the underlying common shares at the date of grant. Options granted prior to January 1, 2006, have not been restated to reflect the adoption of the revised guidance issued in 2006. For both the periods ended December 31, 2011 and 2010, the Company recognized no compensation expense in the periods for share options with an exercise price less than the market value of the underlying common shares on the date of the grant.

As of April 26, 2006, the Company adopted the 2006 Equity Plan (the "Plan"). The number of common shares that may be issued under the Plan may not exceed 247,000. In the event of certain transactions affecting the common shares of the Company, the number or type of shares subject to the Plan, the number and type of shares subject to outstanding awards under the Plan, and the exercise price of awards under the Plan will be adjusted in accordance with the terms of the Plan. The 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 Plan may accelerate and become vested upon a change in control of the Company. The Plan is administered by the governance committee of the Board of Directors. The Plan is subject to amendment or termination by the board.

The Consolidation discussed in Note 16 – Share Capital, is considered a modification of the stock option and restricted share unit awards. Adjustments were made to the stock option and restricted share unit awards to reflect the effects of the Consolidation. The restricted share units were consolidated on a 1 for 10 basis and the stock options were consolidated on a 1 for 10 basis with the exercise price of the stock options being multiplied by 10. Any fractional awards resulting from the Consolidation were rounded up to the next whole unit. The modification in the awards did not result in a material change to the compensation expense relating to these awards. As a result of the Consolidation, information disclosed below in relation to the awards includes the effects of the modification, if subsequent to the date of the Consolidation. However given this is a modification of an award the comparative information, and any other information prior to the date of Consolidation, has not been restated to include the effects of the Consolidation.

As at December 31, 2011, outstanding awards under the Plan consisting of 50,529 share options and 16,705 restricted share units had been granted to the Company's directors, officers and employees. Each of the options will 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 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, 2011 ranges from $7.00 to $162.00. Restricted share units will vest in equal annual installments over a four-year period.

Stock Options

The Company has used the Black-Scholes option pricing model to estimate the fair value of share options using the following weighted average assumptions during the periods ending December 31, 2011 and 2010:

	2011	**2010**
Dividend yield	0%	0%
Expected volatility	147.35%	143.59%
Risk-free interest rate	1.40%	2.13%
Expected life of options (in years)	4.0	4.0
Weighted-average grant-date fair value (1)	$1.46	$ 0.70

(1) Awards were made prior to the Consolidation and these fair values are prior to the effects of the Consolidation.

These assumptions are based on a number of factors as follows: (i) dividend yield was determined based on AOG's historical dividend payments which have been nil and expected dividend payments in the future which are also expected to be nil, (ii) expected volatility was determined using the historical volatility of the share price of AOG and similar companies within the financial guaranty industry, (iii) the expected term of the options is based on the period of time that the options granted are expected to be outstanding and (iv) the risk-free rate is the U.S. Treasury rate effective at the time of grant for the duration of the options granted. 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 actual forfeitures adjusted for future forfeiture expectations due to limited historical forfeiture data. At December 31, 2011, and after taking effect of the Consolidation, the weighted average grant date fair value for options issued subsequent to January 1, 2006 was $14.07.

The Company expensed $0.1 million and $0.2 million in compensation expense related to the options for the years ended December 31, 2011 and 2010, respectively. As at December 31, 2011, there was $0.1 million of unrecognized compensation expense related to the share options granted subsequent to January 1, 2006, which is expected to be recognized over the remaining service period of 1.49 years.

The following tables summarize the share option activity for the years ended December 31, 2011 and 2010:

Year ended December 31, 2011 **Options**	**Number of shares**	**Weighted average exercise price per share**	**Weighted average Remaining Contractual Life**	**Aggregate Intrinsic Value** [(1)]
Outstanding – beginning of year	919,903	8.11		
Granted	88,470	1.46		
Forfeited	(325,000)	10.71		
Subtotal prior to Consolidation [(2)]	683,373			
Reverse stock split 1 for 10 basis	(615,034)	N/A		
Outstanding – End of year	68,339	60.18	3.41	$ 18,000
Exercisable – end of year	45,529	84.54	4.34	$ 4,500
Weighted average fair value per share of options granted during the period [(3)]	$	12.61		

Year ended December 31, 2010 [(4)] **Options**	**Number of shares**	**Weighted average exercise price per share**	**Weighted average Remaining Contractual Life**	**Aggregate Intrinsic Value** [(1)]
Outstanding – beginning of year	1,443,469	8.29		
Granted	120,000	0.70		
Forfeited	(643,566)	7.17		
Outstanding – End of year	919,903	8.11	2.89	$ 26,400
Exercisable – end of year	686,857	10.21	—	$ —
Weighted average fair value per share of options granted during the period	$	0.60		

[1] The aggregate intrinsic value was calculated based on the market value of $8.50 and $0.92 as at December 31, 2011 and 2010, respectively, and is calculated as the difference between the market value and the exercise price of the underlying options.
[2] Amounts and prices prior to the Consolidation effective date discussed above are not adjusted for the effects of the Consolidation.
[3] After taking effect of the Consolidation.
[4] The amounts and prices in the table for the year ended December 31, 2010 are prior to and not adjusted for the effects of the Consolidation discussed above.

Restricted Share Units

AOG has granted restricted share units to directors and employees of the Company. Restricted share units vest annually over a four-year period.

The following table summarizes the restricted share unit activity for the years ended December 31, 2011 and 2010:

12 months ended December 31, 2011	**Number of share units**	**Weighted average grant date fair value per share**
Restricted Share Units		
Non-vested – beginning of year	126,789	1.06
Granted	76,580	1.46
Vested	(35,945)	1.86
Forfeited	(375)	1.45
Subtotal prior to Consolidation [1]	167,049	
Reverse stock split 1 for 10 basis	(150,344)	N/A
Non-vested – End of year	16,705	10.67

12 months ended December 31, 2010 [2]	**Number of share units**	**Weighted average grant date fair value per share**
Restricted Share Units		
Non-vested – beginning of year	66,483	4.11
Granted	114,696	0.70
Vested	(54,390)	4.03
Forfeited	—	—
Non-vested – End of year	126,789	1.06

[1] Number and prices prior to the Consolidation discussed above are not adjusted for the effects of the Consolidation.
[2] The numbers and prices in the above table for the year ended December 31, 2010 are prior to and not adjusted for the effects of the Consolidation discussed above.

The Company expensed $0.1 million and $0.2 million in compensation expense related to the restricted share units for the years ended December 31, 2011 and 2010, respectively. The compensation expense for restricted share units is expensed on a prorated basis over the vesting period. At December 31, 2011, there is unrecognized compensation expense related to the non-vested restricted share units of $0.1 million, which will be recognized over the weighted average remaining service period of 2.73 years.

18 EARNINGS/(LOSS) PER SHARE

Basic earnings per share is computed by dividing net income 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 stock 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 stock awards outstanding because it would otherwise have an anti-dilutive effect on net loss per share.

As discussed in Note 16 – Share Capital, the Company effected a Consolidation of its issued common shares on November 8, 2011. All comparative figures in this earnings per share note are adjusted for the Consolidated as if it had occurred in prior year.

As of December 31, 2011 and 2010, there were 67,764 and 91,991, respectively, of stock options excluded from the diluted earnings per share calculation because they were anti-dilutive. At December 31, 2011, and 2010 there were 5,107 and 132 restricted stock units respectively, included in the diluted earnings per share calculations.

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2011 and 2010:

	2011	2010
Net income available to common shareholders	$ 898,488	$ 11,785,579
Basic weighted-average shares	2,642,136	2,637,978
Effect of stock options	—	—
Effect of restricted stock units	5,682	132
Diluted weighted-average shares	2,647,818	2,638,110
Basic earnings per share	$ 0.34	$ 4.47
Diluted earnings per share	$ 0.34	$ 4.47

19 RISKS AND UNCERTAINTIES

The Company has not renewed its reinsurance treaties with any of the primaries or otherwise written any new business in 2011 or 2010. While the Company does not expect to write any new financial guaranty business, this does not reduce the Company's in-force business, unless the business is commuted or recaptured by the primaries.

The Company continues to evaluate its financial condition and capital adequacy and may pursue a different set of strategies in the future. For example, the Company is currently considering writing other lines of business, such as short-tail, non-catastrophe, property/casualty reinsurance business. Any such undertaking would require approval of the Company's regulators. 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".

At December 31, 2011, the Company has $337.5 million of cash and investments of which $255.7 million is held in trust for the benefit of our ceding companies and $1.2 million in escrow accounts, leaving $80.6 million cash and investments available for the cost of 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.

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 AORE 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, capital investments in AORE and for non-mandatory dividends on its Series A Preference Shares if declared by the Board of Directors of AOG. As of December 31, 2011, AOG has $6.7 million of cash and investments and believes that it will have sufficient liquidity to meet its requirements over at least the next twelve months. AORE's ability to declare and pay dividends to AOG may be influenced by a variety of factors such as adverse loss development, amount and timing of claims payments, 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 Bermuda law. Further increases in loss reserves and credit impairments (a non GAAP measure representing losses expected to be paid on insured credit derivative policies) 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. Although AOG believes that it will continue to have sufficient liquidity to meet its obligations over the long term, it cannot guaranty that AORE will be able to dividend amounts sufficient to satisfy all its obligations, and there can be no assurance that dividends will be declared or paid in the future.

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 15 – Noncontrolling Interest and Note 22 – Statutory Requirements, for further information regarding AORE's ability to pay dividends.

As at December 31, 2011, AORE is not rated by any agency after having requested the withdrawal of ratings from both S&P and Moody's during 2009 following a number of downgrades. The downgrade of AORE's ratings had a material adverse affect on AORE's ability to compete in the financial guaranty reinsurance industry and significantly decreased the value of the reinsurance provided. Due to the above mentioned downgrades, certain ceding companies have the right to increase the ceding commission, as stipulated in the treaties, or terminate the treaties and recapture the business previously ceded to AORE whether written in financial guaranty or credit derivative form. To the extent policies are recaptured, AORE must forfeit to the ceding company an amount determined by formula under each treaty which generally consists of AORE's allocated share of the U.S. statutory unearned premium, net of the ceding commission paid by AORE to the ceding company (subject to a penalty amount in some cases), and loss reserves established with respect to the policies ceded, as applicable. U.S statutory premiums earn on a different basis than GAAP premiums and do not currently include the present value of future installment premiums. The U.S. statutory unearned premiums were approximately $3.3 million lower than GAAP unearned premiums at December 31, 2011, including unearned premiums on credit derivatives. To date, none of the primaries have recaptured any business. The commutations negotiated during the years 2011 and 2010 were not a result of these treaty terms. See Note 5 – Financial Guaranty Contracts Accounted for as Reinsurance, for disclosure on the financial statement effect of increased ceding commission relating to these downgrades.

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.

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 does not "re-underwrite" the transactions ceded under the treaties. The Company's business model has always been that of a reinsurer in which 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.

If AOG is considered a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes, a U.S. Person who owns directly or, in some cases, indirectly (e.g. through a foreign partnership) any AOG shares may be subject to adverse U.S. federal income tax consequences, including subjecting the investor to a greater tax liability than might otherwise apply or, if certain elections are made, subjecting the investor to a tax on amounts in advance of when such tax would otherwise be imposed, in which case the investor's investment could be materially adversely affected. In addition, if AOG were considered a PFIC, unless certain elections are made, upon the death of any U.S. individual owning common shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of the common shares which might otherwise be available under U.S. federal income tax laws. AOG believes that it is not, and it currently does not expect to become, a PFIC for U.S. federal income tax purposes; however, there can be no assurances that AOG will not be deemed a PFIC by the IRS. There are currently no regulations regarding the application of the PFIC provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be forthcoming. AOG cannot predict what impact, if any, such guidance would have on an investor that is subject to U.S. federal income taxation.

20 RELATED PARTY TRANSACTIONS

On May 1, 2010 the Company entered into a management agreement (the "Management Agreement") with Reid Street Services Ltd. ("RSSL"), which is a wholly-owned subsidiary of a company which owns approximately 42.8% of the outstanding common shares of AOG, and in which, two of its indirect shareholders including one director as of December 31, 2011, also serve as directors of AOG and AORE. RSSL is licensed in Bermuda as an insurance management company and is able to provide insurance management services to its affiliate entities. Pursuant to the terms of the Management Agreement RSSL employed all of the employees of the Company with the exception of the Chief Executive Officer. RSSL provides professional services to the Company, which principally comprised: policyholder and related services; maintenance of books and records; drafting of financial and quarterly reports;

production of government reports; and the maintenance of the investments and bank accounts. For its services, the Company is required to pay RSSL a service fee equivalent to the sum of leasehold costs and employee costs based on a prescribed formula. During the year ended December 31, 2011, the Company incurred $1.9 million in services fees from RSSL which is included in operating expenses in the Company's Consolidated Statements of Operations. For the period from May 1, 2010 to December 31, 2010, the Company incurred $1.2 million of service fees. As at December 31, 2011 and 2010, immaterial amounts remained outstanding and were included in accounts payable and accrued liabilities in the Company's Consolidated Balance Sheet.

21 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.

The Company does not consider itself to be engaged in trade or business in the U.S. and, accordingly, does not expect to be subject to U.S. taxation.

22 STATUTORY REQUIREMENTS

AORE is registered as a Class 3A insurer and is regulated as such under the Bermuda Insurance Act 1978, amendments thereto and related regulations (the "Bermuda Insurance Act"). The Bermuda Insurance Act requires that AORE maintain (among other things) minimum levels of solvency and liquidity. As at December 31, 2011, the minimum required statutory capital and surplus was $12.5 million, and actual statutory capital and surplus was $150.7 million. As at December 31, 2010, the minimum required statutory capital and surplus was $6.3 million and actual statutory capital and surplus was $148.0 million. Statutory income was $0.5 million and $17.4 million for the years ended December 31, 2010 and 2011, respectively.

In addition to the solvency margin, the Bermuda Insurance Act requires AORE to comply with a liquidity ratio whereby the value of its relevant assets must be not less than 75% of the amount of its relevant liabilities. Management believes AORE is in compliance with these requirements as at December 31, 2011. The minimum required level of liquid assets was $146.8 million and $135.3 million and actual liquid assets were $346.4 million and $328.3 million as of December 31, 2011 and 2010, respectively.

In the event AORE fails to meet its relevant margins on the last day of any financial year, it shall not without the approval of the Bermuda Monetary Authority (the "BMA"), declare or pay any dividend during the next financial year. Further to this, Class 3A insurers must obtain the BMA's prior approval before reducing total statutory capital, as shown on their respective previous financial year's statutory balance sheets, by 15% or more. Based upon this test for a Class 3A insurer, without obtaining approval from the BMA, the maximum amount that will be available during 2012 for the reduction to capital by AORE, is approximately $52.9 million.

In recent years the BMA has introduced a number of changes to the Bermuda Insurance Act, such as allowing the BMA to prescribe standards for an enhanced capital requirement and a capital and solvency return that insurers and reinsurers must comply with. The Bermuda Solvency Capital Requirement ("BSCR") employs a standard mathematical model that can relate more accurately the risks taken on by (re)insurers to the capital that is dedicated to their business. Insurers and reinsurers may adopt the BSCR model or, where an insurer or reinsurer believes that its own internal model better reflects the inherent risk of its business, an in-house model approved by the BMA. AORE has been exempted from the Insurance (Prudential Standards) (Class 3A Solvency Requirements) Rules 2011 for the year ended December 31, 2011, including the requirement to complete the BSCR.

Statutory financial statements prepared under the Bermuda Insurance Act differ from financial statements prepared in accordance with US GAAP, principally due to the exclusion of non-admitted assets such as deferred policy acquisition costs, prepaid expenses and the fair value adjustment of derivative instruments in excess of credit impairments, a non-GAAP measure of losses on derivative policies.

AORE and the Company must also 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 AORE and the Company will evaluate any dividends in accordance with this test (and any other restrictions as discussed in Note 15 – Non Controlling Interest) at the time such dividends are declared.

23 SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 1, 2012, which is the date the financial statements were issued.

DIRECTORS AND EXECUTIVE OFFICERS

Director Biographies

Set forth below is biographical information concerning each director of AOG and AORE as of December 31, 2011, including each such individual's principal occupation and the period during which such person has served as a director of AOG and AORE.

Steven J. Tynan
Age 57
Director since 1998
Chairman of the Board of Directors since 2001

Mr. Tynan is a retired private investor. He co-founded High Ridge Capital LLC, a private equity firm that specialized in the insurance sector, in 1995 and served as a member of the firm through 2009 when all of its remaining portfolio investments were liquidated. Mr. Tynan holds a BBA degree from Hofstra University and is a Certified Public Accountant. Mr. Tynan is a director of Orpheus Group Ltd. in Bermuda as well as all of its direct and indirect subsidiaries in Bermuda and the United States, including Calliope Investments Ltd. in Bermuda and Reid Street Services Ltd. in Bermuda.

Edward F. Bader
Age 70
Director since 2004

Mr. Bader owns Bader & Associates, LLC., a consulting firm. Prior to founding Bader & Associates in August 2001, Mr. Bader was a partner in the Insurance Services Practice of Arthur Andersen LLP with more than 37 years of experience in accounting and auditing concentrating in the insurance industry. He served as the head of Andersen's World Wide Insurance Practice Group. Mr. Bader is a director of Hannover Life Reassurance Company of America. Mr. Bader received a B.S. degree in Economics from Fairfield University.

Clement S. Dwyer Jr.
Age 63
Director since 2010

Mr. Dwyer is President of URSA Advisors, Inc. of Portsmouth, New Hampshire, a provider of insurance, reinsurance and capital raising advisory services. 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 and Director. He received a B.A. degree from Tufts University and completed the Executive Program at Stanford University Graduate School of Business. Mr. Dwyer is a former director of Montpelier Reinsurance Holdings, Ltd. in Bermuda, Chairman and a director of Old American County Mutual Fire Insurance Co. of Dallas, Texas, a director of Dowling & Partners of Farmington, Connecticut and a director of ProSight Specialty Holdings Inc. of Morristown, New Jersey.

Debra J. Roberts
Age 58
Director since 2011

Ms. Roberts is Chief Executive Officer of Debra Roberts & Associates, Inc., which provides risk transfer consulting and arbitration-related services to the domestic and international reinsurance industries. This company has served clients in the United States, Bermuda and Europe since 1993. From 1981 through 1993, Ms. Roberts held positions at three companies within the Swiss Reinsurance Group ("Swiss Re"). She began as Senior Underwriter at North American Reassurance Company, Swiss Re's life and health reinsurer in New York. From 1986 until 1993, she served as Vice President of Atrium Corporation, a reinsurance intermediary wholly-owned by Swiss Re in New York City, and concurrently served as Vice President of European International Reinsurance Company Ltd. of Bridgetown, Barbados, a Swiss Re affiliate specializing in finite reinsurance for U.S. property and casualty companies. Ms. Roberts holds an M.B.A. from Fordham University Graduate School of Business and is a Chartered Financial Analyst.

David K. Steel Age 54 President, Chief Executive Officer and Director since 2010	Mr. Steel has been President, Chief Executive Officer and a Director of AOG and AORE since May 2010. He originally joined the Company in August 2005 as our Chief Risk Manager. Mr. Steel was previously a Managing Director and Portfolio Manager of Hanover Capital Mortgage Holdings, Inc. Prior to Hanover, Mr. Steel served as head of the Domestic Mortgage Insurance and Reinsurance business at ACE Capital Re, Inc. from 2002 to 2004. Prior to that, Mr. Steel held various positions at Financial Guaranty Insurance Corporation from 1990 to 2002, where he was most recently a member of the corporate leadership team and headed the Mortgage-Backed Securities and Investments business. From 1984 to 1990, Mr. Steel was an investment banker in the Financial Institutions and Mortgage Finance groups at Lehman Brothers. Mr. Steel holds an M.B.A. from the University of California, Los Angeles and a B.S. from California State University, Sacramento.
David W. Geiss * Age 43 Director of AORE since February 14, 2011	Mr. David W. Geiss serves as Vice President, General Counsel and Corporate Secretary of Perceptron Inc., a publicly traded company. Prior to joining Perceptron, Inc. in 2003, Mr. Geiss was a senior associate at Dykema Gossett PLLC from 1997 to 2003 and an associate at Sills, Law, Essad, Fiedler & Charboneau from 1992 to 1997. Mr. Geiss received his J.D., graduating cum laude, from the University of Detroit School of Law and an A.B. in Political Science, cum laude, from the University of Michigan.

* David W. Geiss was elected to the board of AORE by the holders of AORE's Class B Preference Shares at the special general meeting of holders of Class B Preference Shares held on February 14, 2011.

Executive Biographies

Biographical information concerning David K. Steel, our sole executive officer as of December 31, 2011, is set forth above under "Director Biographies". Subject to rights pursuant to any employment agreements, officers serve at the pleasure of our Board of Directors.

Board of Directors Meetings

As of December 31, 2011, we have an audit committee, a governance committee, and a risk management committee. The members of the committee are as follows:

Director	Audit Committee[1]	Governance Committee [1]	Risk Management Committee [1] [2]
Edward F. Bader	X*	X	X
Debra J. Roberts	X	X	X*
Clement S. Dwyer Jr.	X	X*	X
Steven J. Tynan	X	X	X

* Chairman

(1) The composition of any or all committees may change, subject to the results of elections of directors at shareholders' meetings or for other reasons. Additionally, we may from time to time form other committees as circumstances warrant with such authorities and responsibilities as are delegated by our board. In 2011, the Compensation, Nominating and Corporate Governance Committee changed its name to the "Governance Committee". Subsequent to the year end the Board of Directors approved that each of the following committees of the Board be and are hereby terminated with immediate effect: Risk Management Committee; Audit Committee; and Governance Committee, and that the functions of each Committee will henceforth be the responsibility of, and carried out by, the Board.

(2) The Risk Management Committee was established by the board of directors of AORE.

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, 2011, was 99,309 shares or 4% of the common shares outstanding.

As of December 31, 2011, two indirect shareholders in, including one director of, an affiliated Company which owns approximately 42.8% of the outstanding common shares of AOG, also serve as directors of AOG and AORE.

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 2011 for each director as of December 31, 2011, (other than Mr. Steel, whose equity awards are set forth in "Equity Compensation of Executive Directors" below). All information in the equity compensation tables below include the effects of the 1 for 10 reverse stock split which was effected on November 8, 2011.

Name	Shares Underlying Options at Dec 31, 2011 (Outstanding)	Shares Underlying Options at Dec 31, 2011 (Vested and Exercisable)	RSUs: That Have Not Vested
Edward F. Bader	6,601	2,830	3,471
Debra J. Roberts	1,242	-	1,058
Clement S. Dwyer	4,521	750	3,471
Steven J. Tynan	4,521	750	3,471

Share options granted to the directors under our 2001 Stock Option Plan prior to 2006 vest quarterly over a three year period. Share Options granted to directors beginning in 2006 under the 2006 Equity Plan vest in four equal annual installments on the first four anniversaries of the date of grant. RSUs vest annually 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, 2011. All information in the equity compensation tables below include the effects of the 1 for 10 reverse stock split which was effected on November 8, 2011:

	Option Awards				RSU Awards	
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]**
David K. Steel	14,950	—	$120.30	6/30/2015	—	—
	3,793	—	$134.50	5/2/2013	—	—
	4,999	-	$162.00	2/20/2014	—	—
	—	—	—	—	1,320	$11,220
	14,887	4,963	$14.50	3/5/2015	—	—
	1,521	_	$15.20	5/1/2016		

(1) Based on the closing price of $8.50 per share on December 30, 2011, the last business day of 2011.

Options granted prior to May 2006 were awarded under our 2001 Stock Option Plan and vest in 5% 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 over a four-year period.

The following table shows options exercised and RSUs vested during 2011:

	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**
David K. Steel	—	—	191	$2,827 [2]

(2) Value based on the closing price of AOG common shares of $14.80 on February 18, 2011 (the closest business day prior to the actual vesting date of February 20, 2011).

Director Service Contracts and Other Contracts of Significance

There are no service contracts with directors.

On May 1, 2010 the Company entered into a management agreement (the "Management Agreement") with Reid Street Services Ltd. ("RSSL"), which is a wholly-owned subsidiary of a company which owns approximately 42.8% of the outstanding common shares of AOG, and in which, two of its indirect shareholders including one director as of December 31, 2011, also serve as directors of AOG and AORE. RSSL is licensed in Bermuda as an insurance management company and is able to provide insurance management services to its affiliate entities. Pursuant to the terms of the Management Agreement RSSL employed all of the employees of the Company with the exception of the Chief Executive Officer. RSSL provides professional services to the Company, which principally comprises: policyholder and related services; maintenance of books and records; drafting of financial and quarterly reports; production of government reports; and the maintenance of the investments and bank accounts. For its services, the Company is required to pay RSSL a service fee equivalent to the sum of leasehold costs and employee costs based on a prescribed formula.

Forward-Looking Statements and Risk Factors

Some of the statements under "Business," "Management's Analysis of Results of Operations," and elsewhere in this annual report include forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform act of 1995. These statements reflect our current views with respect to future events and financial performance. These statements include, without limitation, our expectations respecting the volatility of our insured portfolio, losses, loss reserves and loss development, the adequacy and availability of our liquidity and capital resources, our current run off strategy, our consideration of other reinsurance businesses, and our expense reduction measures. Statements which include the words "expect," "intend," "plan," "believe," "project," "anticipate," "should," "could," "may," "will" and similar words or statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include but are not limited to the following: (i) our ability to execute our 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 AORE has a concentration of its reinsurance in force; (iv) legislative and regulatory developments; (v) changes in regulations or tax laws applicable to us or our customers; (vi) more severe or more frequent losses associated with AORE's insured portfolio; (vii) losses on credit derivatives; (viii) changes in our accounting policies and procedures that impact our 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 foregoing review of important factors should not be construed as exhaustive. We undertake no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from those we projected. Any forward-looking statements you read in this annual report reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our business, operations, results of operations, financial condition, strategies and liquidity. All subsequent written and oral forward-looking statements attributable to us or to individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified in this annual report which could cause actual results to differ before making an investment decision.

American Overseas Group Limited Corporate Information

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www.aoreltd.com

Investor Information

Information about American Overseas Group Limited, including all quarterly earnings releases and reports, can be accessed via our 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 Limited 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:

30 Victoria Street
Hamilton, Bermuda
441-292-7212 or -7213
www.bsx.com

Transfer Agent

Computershare

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Independent Registered Auditors

Deloitte & Touche Ltd.